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RESULTS OF MANAGEMENT PATTERN REFORMS DISCUSSED

HK100007 Beijing JINGJI YANJIU in Chinese No 6, 20 Jun 87 pp 16-25

[Article by the Macroeconomic Management Group, Institute of Economics, the Chinese Academy of Social Sciences: "Persist in Moderate Decentralization, Rebuild the State's Management Pattern--Review and Thoughts on Reform of the Financial Structure and Macroeconomic Management in the Past Few Years"]

[Text] Since 1978, our country has carried out a certain reform of the financial structure and macroeconomic management. What are the results of these reforms? What influences have they made on the changes in the form of our country's economic structure and in the macroeconomic operations? What should be the next step of the reform? At present, people's views are not unanimous. This article purports to give our views in this connection.

I. Reviewing the Reform's Progress and Holding the Reform's Direction

In recent years, the reform of our country's urban economic structure has been developing along the line of thought of following the "delegating of authority and ceding of interest" as the central work. In the course of the actual practices, the work that has truly displayed its role is the reform in the structures of planning, finance, and distribution of income. The results of the actual practices have gained many successes but also have met with certain problems.

The guideline of "delegating authority and ceding interest" is principally aimed at removing the traditional structure's drawbacks of overcentralization and control to the strangling point. It has the strong points of facilitating the reform operations and activating the interest of the various sides in the reform and plays an obvious role of breaking the ossified state of the traditional structure and swiftly forming a state of reform. However, since it cannot basically touch upon the organizational system of the original structure and fundamentally change the original operational mechanism and the mode of operation, the reform measures that have so far emerged necessarily carry with them a definite degree of mere improvement. Reform is a sort of revolution. It calls for creating something new in the organization

and system of the microeconomic foundation, market development and macroeconomic management related to the operations of the entire economy.

Over the past years, the reform in our financial structure and income distribution structure may be generalized to have been realized along two lines, yielding two final results. The two lines of the reform are: 1) enforcement in 1980 of the reform of the financial structure featuring the "demarcation of revenue and expenditure and contracting at various levels," that is the commonly called "eating from separate kitchens;" 2) instituting since 1983 the two stages of "taxes-in-lieu-of-profits." As for the two final results, they are: 1) generally speaking, central finance and local finance are on a 50-50 (or 60-40) basis; and 2) budgetary revenues and expenditures and extra-budgetary revenues and expenditures are also generally on a basis of 50-50 (or 60-50).

"Eating from separate kitchens" is originally intended to share the burden under the difficult financial conditions and is not for the purpose of dividing the interests. Its special features are: in accordance with the administrative and subordinate relationship under the existing management structure, demarcation is made of the scope of revenues and expenditures of central and local finances and on that basis determination is made of the contracting base figures of the local finance. After the central government has fixed and forwarded to the lower levels the ratio of deliveries from local finance, the ratio of regulating and adjusting, and the fixed amounts of subsidies, in principle they will remain unchanged for a period of 5 years and local finance must seek its own balancing within the demarcated scope of revenues and expenditures. The result of the enforcement has basically realized the original intent. Because the system of "eating from separate kitchens" has strengthened to a certain extent the local governments' sense of responsibility in handling its finances and its enthusiasm for increasing revenues and practicing economy, the excessively high financial expenditures and financial deficits have been greatly reduced. At the same time, with local finance showing a favorable balance, aid has been rendered to central finance. In 1980, national financial expenditures were reduced by 4.8 percent and in 1981 by 8.6 percent while the financial deficits have been reduced from the 3-digit figure to 2-digit figure. In 1981, central finance borrowed from local finance loans amounting to 7 billion yuan, in 1982 the loans amounted to 4 billion yuan and both of these greatly eased the financial difficulties of the central government, ensured the fulfillment of the adjustment tasks and avoided too violent reverberations in the development of the national economy.

Seen from the direction of dividing the management power between the central government and the local governments, "eating from separate kitchens" carries an active significance. However, because of the inappropriate steps taken in enforcing the principle and method of the

division of power and in the entire reform, many unavoidable impediments were laid against the subsequent reform and macroeconomic management.

1) In the framework of the traditional structure, administrative management and economic management are in a complex and muddled state of there being no way of demarcating between them. As a result, enforcement of the division of power can only be a simple duplication of the original state at different levels and in different areas; and it is impossible to avoid mixing together administrative division of power and economic division of power. By so doing, the role of separation of government from enterprise functions cannot be played well and, moreover, because of the local governments being more closely related to the enterprises, their original direct management is further augmented and causes various kinds of unprincipled acts to become rampant such as an increase in the number of levies, gifts, and presents under various names and pretexts, shifting of part of the governmental work to the enterprises, and so forth. 2) The urgent wishes for the speedy solution of the financial difficulties and the short-term consideration for the rapid restoration of the macroeconomic equilibrium have made people, in selecting between the motive power mechanism and the signal mechanism, tend more to the motive power mechanism. As a result, finance has been taken as the breakthrough point in the reform and the valves of the "interest impelling or driving machine" in the form of contracting are opened too soon. Under the drive for short-term benefits in seeking pro-rata revenues for the localities, governments at various levels have become prone to increase their establishments, start new projects, do redundant construction work, demarcate their spheres of influence, fight for resources that are scarce or in short supply, impede commodity circulation, cause a state of exigency between the processing industries and the basic industries, and aggravate the imbalance of macroeconomy. 3) "Eating from separate kitchens" has also generated a new problem never met with before by macroeconomic management under the traditional structure, namely, the problem of the contracting period. The over-heated state of the economy from 1984 to 1985 was related not only to speeding up the quadrupling process and to competition for speed but also to the fact that a series of contracting base figures were nearing the expiry of the contracting periods in local finance. Take the 1980 financial expenditures as the base 100, the 1983 index of local financial expenditures was 115.6 and the 1984 index was 143.7; during the same period, the indices of the central financial expenditures were respectively 98.8 and 113.5.

The purpose of the measure of tax-in-lieu-of-profits is to smooth out the relationship between the state and the enterprise and the measure is meant to invigorate the enterprises on the one hand and protect or ensure the state's revenue on the other. The first stage of the measure called for "taxes replacing profits and coexistence of taxes and profits," and the second stage progressed from the "coexistence of taxes and profits" gradually to reach the final objective of "tax collection replacing the delivery of profits." Following the second stage of taxes replacing the delivery of profits, the ratio of taxes in the state's

financial revenues rose from 45.6 percent during the "5th 5-year plan" period to 95 percent.

Enforcement of the two stages of the measure of tax-in-lieu-of-profits has achieved definite results in improving the distribution relation between the state and the enterprises. The distribution relationship between the state and the enterprises is fixed by legal statutes, the enterprises' autonomous power in economic management and financial management is expanded, their vitality is strengthened. The state's financial receipts have also achieved a stable increase and conditions are created for carrying out the "tax division system" between the central government and the local governments.

Although the "tax-in-lieu-of-profits" measure has achieved certain results, there are still problems which are worthy of studying. The principle ones are: 1) The tax collection standard is based on the past profit retention ratio and computed therefrom. Although the name is changed, little change is involved in substance. Moreover, the provision that repayment of loans may be made before tax payment literally has not fully solved the problem of the enterprises being solely responsible for the profits and not for the losses and of "everybody eating from the same big pot" at the expense of the state. 2) Owing to the habituality of command economics, leadership people from the central government to the local governments at various levels have become accustomed to make commands at will, to reduce taxes, to replace law with power, to replace law with words and to collect taxes on a consultative basis. According to an examination of tax collection in the past few years, in the localities 70 to 80 percent of the enterprises have been found guilty of tax evasion, the compulsory character of tax collection has been weakened and the solemn character of taxation laws has been lost considerably. 3) Abolition of the measure of delivering profits to the state and replacing it with paying taxes confuses the demarcation line between the government and the assets owners and their functions; it reduces the transparent degree of the value-increment capability of state-owned assets, abolishes the corresponding measuring yardstick and brings impediments to the macroeconomic management of assets that cannot be overcome. Moreover, the mixing together of administrative separation of power and economic separation of power is disadvantageous to the transformation of the pattern of the economic structure. Effectively managing state-owned assets presents a complex problem. It cannot be solved by simply using the "tax-in-lieu-of-profits" measure.

Following "eating from separate kitchens" and the two stages of the "tax-in-lieu-of-profits" measure, income distribution between the central government and the local governments and between the state and the enterprises has been transformed from being overcentralized formerly to being relatively decentralized. As mentioned above, in general, the situation has become one of each occupying 50 percent or one party occupying 60 percent and the other party, 40 percent. This tallies with

the meaning or intent of enforcing the power-separation reform. Its active development goes hand in hand with the development of the localities' financial self-management and the enterprises' decisionmaking power. The current problem is on the basis of an appropriate division of power to seek for a suitable form to develop a funds centralizing mechanism which has many principal bodies and many levels and is of an operational nature. After the preceding stage of the reform, the economic progress has suffered changes and the financial situation alone cannot singly determine the basic stature of the economic development. Rather, residents' savings and enterprises' profit retentions have become the important sources of accumulation and investments and determined the gross economic posture. Under such conditions, adroitly guiding action according to circumstances and developing an operational centralized mechanism for funds constitute the correct direction and a rational line of thought in deepening the reform.

At present central finance is really in rather great difficulties. Except 1985, since 1980 central finance has incurred rather heavy budget deficits. This was also true with 1985 if revenues from domestic and foreign loans were excluded. In solving the financial difficulties of the central government, three possible roads may be selected: One of them is to change the income distribution ratio between the central government and the local governments and between the state and the enterprises and to return to the old road of the central government having unified charge of the revenues and expenditures. This road is obviously not workable. Another road is to adopt unprincipled measures to solve the current difficulties such as the central government making levies on the local governments and the local governments in turn levying on the enterprises. But this will only further derange the economic relations. In our opinion, the correct line of thought is, in accordance with the principle of "separation of the state's functions and diverging the flow of taxes and profits onto separate channels," to choose some countermeasures which can bring about a temporary solution, effect a permanent cure, carve out anew an organizational system for the state's macroeconomic management and thus push the reform forward.

II. Enforcing "Separating the State's Functions and Diverging the Flow of Taxes and Profits Onto Separate Channels" and Carving Out Anew an Organizational System for Macroeconomic Management

Before the reform, our country was a state in which government and enterprises were unified and power was centralized in the central government. By means of its mandatory planning structure and a financial system of unified receipts and expenditures the central government directly controlled the whole nation's economic life, local governments at various levels acted as the concrete executive bodies and the enterprises were subordinate to the central government and the local governments at various levels and their economic management organs. Since 1978, through the reforms of the structures in various sectors

such as planning, finance, material resources, personnel and so forth, the local governments have assumed certain powers in such sectors as financial management, urban and rural construction, fixed assets investments, use of foreign exchange, and so on, while the enterprises' self-decisionmaking power in operations has been enlarged. However, many of the reforms have been only preliminary and reform of a real and substantial character has not developed to any great extent. The relations between the central government and the local governments and between the state and the enterprises have not been put in order and some of the reforms still duplicated the functions originally found in the traditional structure, thus impeding the smooth transformation of the pattern of the economic structure.

How did such a situation arise? Comrade Wu Jinglian believed that first it was due to the incorrectness of the reform's line of thought calling for "delegating of authority and ceding of interests" and second because "delegating authority and ceding interests" paid attention to delegating of authority of an administrative nature and did not deal with delegating of authority of an economic nature. (Footnote 1) (The delegating of authority of an administrative nature mentioned in Comrade Wu Jinglian's article in issue No 2 1987 of the JINGJI YANJIU magazine in reality mixed together, in the administrative authority delegating form, authority delegating administration (or of an administrative nature) and authority delegating in economics (or of an economic nature). Strictly speaking, this is different from authority delegating of an administrative nature. The authority delegating of an administrative nature we refer to is limited to the demarcation of the administrative authority of the central government and the local governments and does not concern other economic organizations.) This non-differentiation between the two and the viewpoint of wholly refuting authority delegating of an administrative nature are definitely one-sided in nature. But pointing out the incorrectness of the reform's line of thought of calling for "delegating of authority and ceding of interests" and the failure to perform a good job in authority delegating of an economic nature about approached the real substance of the problem. In reality, authority delegating of an administrative nature has a definite role and scope and cannot be summarily refuted. The key of the problem lies in our inability to find a workable and effective form and method to clearly differentiate and correctly realize the different functions and capabilities of the state.

Our country is a socialist country. The state has a dual status and has two-fold functions: one is that as the government and representative of the state's administrative power, it engages in various kinds of administrative and management activities and possesses administrative and management functions; the other is that as owner of properties under the system of ownership by the whole people, it represents a definite economic power, engages in definite economic activities, and thus possesses definite economic management functions. A clear differentiation of this dual status of the state and its two kinds of

power, two kinds of activities and two kinds of functions constitutes the basic starting point in reforming the economic structure, otherwise it will be impossible to secure an appropriate form for its realization and impossible to go onto the road of separation of government from enterprise functions and indirect management.

The state's holding of the administrative power and exercising its administrative functions may be in two basic forms, namely, centralization and decentralization; its holding and exercising of its economic management power and functions may be in two basic forms, namely, direct and indirect. Since the direct economic management form is the government managing the economy, in a definite sense it is also a kind of centralized management form; similarly, indirect management in a definite sense is a kind of a decentralized management form. Thus, there exist two categories of centralized power and decentralized power, that is, centralized power and decentralized power of an administrative nature and centralized power and decentralized power of an economic nature. The former is related to the power, responsibility and interest relationships between the central government and the local governments in administrative management while the latter is related to the power, responsibility and interest relationships between the state and the enterprises. Each of these two categories of centralized power and decentralized power has its different meaning and contents and also different significance and role. They are mutually independent but mutually related. They cannot be discarded or refuted at will, cannot be reciprocally replaced or confused or mixed up but can be mutually united. Their differentiated combinations have formed today the world's four existing different types of management pattern or management mould: 1) combination of centralization of an administrative nature and centralization of an economic nature; 2) combination of decentralization of an administrative nature and centralization of an economic nature; 3) combination of centralization of an administrative nature and decentralization of an economic nature; and 4) combination of decentralization of an administrative nature and decentralization of an economic nature.

Everybody knows clearly the defects of type No 1; hence they will not be discussed here. As for type No 2, although it gives the local governments a definite amount of business power and financial power and fosters their sense of responsibility, their capability and their enthusiasm for the upbuilding and development of the various kinds of local projects, yet, so long as in economic matters direct management, be it centralized in the central government or decentralized in the local governments, is still enforced, then the enterprises will not be able to become independent producers and operators in commodities and cannot have real decisionmaking power and life force. Such a kind of economy still lacks vitality and efficiency. Our actual practices at present have verified this point.

The third type might be workable in certain large countries of ancient times and also might play a certain role in the initial construction period of certain economically backward large countries of the present era. For the present and in the future, it is applicable to certain small countries and indeed there have been cases of many successes having been achieved. However, at our country's current level of development it is not workable. Ours is a large country; economically we have a definite foundation and reached a certain scale. Besides, conditions in the localities greatly differ one from the other and are highly imbalanced. Even though the central government is extremely powerful and capable, it is still not possible to perform a good job of running the affairs of the various localities and the hundreds of thousands of enterprises. Nevertheless, since our country is a developing country and wishes to catch up with the developed countries within a not too long historical period, to a definite degree centralization is exceptionally necessary and there should be only an appropriate degree of decentralization. This has two meanings: 1) the decentralization of an administrative nature which we enforce is neither the autonomous type of decentralization in the localities or the federal type of decentralization in the localities and the central government must maintain a sufficient amount of power. It is a sort of centralization-decentralization combination form, and may be termed the centralization-decentralization self-attending type; furthermore, decentralization for the localities should not be like the current state of level-by-level demarcation, or literally "cutting to pieces." 2) The decentralization of an economic nature which we enforce must possess a definite centralized mechanism of an operational nature.

The theatre of activities and mode of actions of representatives of political power and property owners are radically different from each other. The economic spheres in which each manifests its power and functions are also not alike. Taxation is dependent on the political power of the state and hence is one of the indications of the state's political power; profit is derived from the holding and use of the means of production and is therefore an indication of the property ownership right. Under the present conditions of our country, the state has the dual status of being the representative of political power and property owner. On the one hand, in the capacity of ruler of the state it must exercise its administrative power and collects taxes from the taxpayers; on the other hand, in the capacity of property owner, it must exercise its property right and earns profits. In the enforcement of the types numbers 1 and 2, the state's dual status is combined together and is manifested through the government while taxes and profits are also combined together and, through the unitary channel of state finance, are collected by the above and delivered from below. Thus the government engages in administrative management activities and at the same time engages in economic investment activities. On the contrary, under the third and fourth types, the state's dual status and its two kinds of functions are separated and both taxes and profits flow separately and through separate channels. Profits are not considered as contributions

to the state's administrative power and thus incorporated into state finance but are subject to distribution and operation outside the sphere of state finance. The sources of the errors made in the course of our reform may be traced to our failure to clearly differentiate the state's dual status and its two kinds of functions and our inability to find a suitable form to manifest and realize this differentiation. Before the reform, taxes and profits coexisted, profits were the principal body and although on the surface they flowed separately in reality they were joined in one current, being all incorporated into the pockets of state finance. This was the result of the non-separation of government from enterprise functions (see Diagram 1). After enforcing the second stage of the taxes-in-lieu-of-profits measure, the merging of taxes and profits into one and forming one current was an important cause making it difficult for the reform to achieve a concrete development. (See Diagram 2)

(1) If, in order to encourage certain industries, trades or products so that they can achieve a greater development, the state practices tax reduction or exemption, then this will cause a rise in output value and reduction of taxes and profits and, seen from the financial angle, a false appearance of falling off in efficiency. This will lessen the transparent character of economic life and bring difficulties to management.

(2) Seen from the problems arising after the second stage of the "taxes-in-lieu-of-profits" measure, it is unworkable to merely rely on the enterprises and their staff members and workers themselves to perform a good job of handling and using the state-owned properties and to restrict their interests or benefits. The state as the property owner must have an appropriate organization and system to perform well the job of managing and using state-owned properties.

(3) Since the reform, a situation of coexistence and development of many kinds of economic constituents and forms has appeared and the government should treat them all alike, provide them with the same kind of services, accept the same kind of contributions and should not stress the one and not the other. Hence, tax laws, kinds of taxes and tax rates should be unified. However, in merging taxes and profits, this point cannot be done and, if done, it will be tantamount to refuting the state's status and functions as the owner of the state-owned properties. Enforcing differential tax laws, tax kinds and tax rates on different economic constituents and economic forms places state-run enterprises in a disadvantageous position. It is also one of the causes of enterprises owned by the whole people being not as good as collective enterprises, collective enterprises not as good as individual enterprises and individual enterprises not as good as jointly-financed enterprises.

(4) Profit retentions of state-run enterprises constitute only a portion of the profits, and cannot represent the whole value-increment capacity of state-owned assets; the portion of profits delivered to the

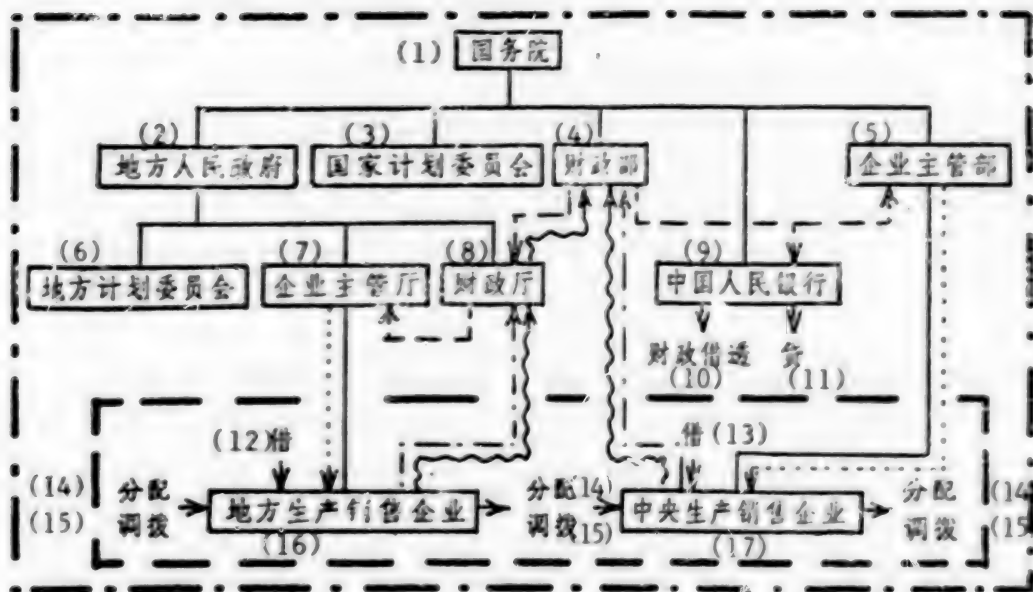


图 例

- (18) ——— (连接方框的实线) 经济体制的组织框架 波浪线 → 税收及流向 (21)
 (19) - - - - - 企业及政府主管机构留利及流向 点划线 → 利润及流向 (22)
 (20) - - - - - 财政拨款及流向 虚线 → 投资及流向 (23)
 (24) (垂直于方框的箭头) 非市场化的资金借贷等 双箭头 ⇌ 广义货币供应机制 (25)

Diagram 1. Pattern of Traditional Economic Structure--Diagrammatic Chart of "Combination of State's Functions and Joint Flow of Taxes and Profits"

Key:

1. State Council
2. Local People's Governments
3. State Planning Commission
4. Ministry of Finance
5. Ministries in charge of enterprises
6. Local or provincial planning commissions
7. Bureaus in charge of enterprises
8. Finance Bureau
9. People's Bank of China
10. Financial borrowings and overdrafts;
11. Loans or lendings
12. Loans (borrowings)
13. Loans (borrowings)
14. Distribution
15. Transfers and appropriations
16. Local production and marketing enterprises
17. Central production and marketing enterprises
18. (Solid lines connecting the frames) organizational framework of the economic structure
19. Profit retention and direction of flow of enterprises and their governmental organizations in charge
20. Financial appropriations and their direction of flow
21. Tax collections and their direction of flow
22. Profits and their direction of flow
23. Investments and their direction of flow
24. (Arrowheads vertically pointed to frames) non-market loans, funds
25. Currency supply mechanism in a broad sense

state in the form of taxes is subjected to distribution and investment in construction through the state's financial channels and thus makes the government again directly engage in property operational activities. This renders it difficult to separate government from enterprise functions.

(5) Due to the mixing up of the functions and the confusion of the channels, individual economic bodies have committed many irrational acts. They do not each attend separately to its functions and coordinate with each other. Rather, they take over of their own accord or are forced to take over many affairs not related to themselves. The central government takes over a portion of the affairs of the local governments and enterprises, the local governments turn over a portion of their tasks to the central government and enterprises and the enterprises, although already unable to attend to all their own affairs, are forced to attend to many jobs which should be done by the government. Acts of enterprises have become for short-term only, acts of local governments have likewise become for short-term only, and, in turn, acts of the central government have also shown a trend to be for short-term only.

In view of the abovementioned conditions, we believe that in the next stage of the reform we should form a macroeconomic management pattern which features "separating the state's functions and diverging the flow of taxes and profits onto separate channels." The basic line of thought on this reform program is as follows:

(1) We should clearly differentiate between the state's administrative power, administrative activities and administrative functions and the state's power, activities and functions as owner of the state-owned assets and let this be fixed by legislation. We should form a state-owned assets commission representing the owner of the state-owned assets, and, like the government, being subordinate to the National People's Congress.

(2) The functions and forms of activities of the state-owned assets commission are: to represent the owner of state-owned assets to sanction the establishment, merging or abolition of state-run financial and currency enterprises, to decide on their basic system, appointment of their leadership personnel and important and strategic policies, be responsible for supervising the operations and value-increment of state-owned assets but not necessarily directly managing the distribution and investment of the profits, and be responsible for reporting to the NPC the condition of the operation and value-increment of the state-owned assets.

(3) On the basis of the second stage of the taxes-in-lieu-of-profits scheme, we should enforce the management method of diverging the flow of taxes and profits and letting them flow in separate channels.

Concurrently we may consider diverging the flow of the regulation tax and a portion of the income tax.

(4) Taxation being society's offerings to the state through the exercising of its administrative power, it constitutes the major and even the sole source of the state's financial revenues. It should be subjected to the government's disposition according to the principle of justice and equality. The taxpayers should be subjected to unified tax laws, tax categories, and tax rates and between the central government and the local governments should be instituted and enforced a new financial structure which truly demarcates between them the kinds of taxes and the revenues and expenditures.

(5) As the benefits or earnings of the assets owners, profit represents the value-increment capacity of all the assets. It should not be incorporated into the realm of national finance but take an independent form of operation, or, by means of handling state-owned assets according to banking practices or setting up a state-run investment company and investment bank, be placed in a commercialized form for inclusion in the cycle of expanded reproduction with the operations following the principle of efficiency. Generally speaking, government cannot directly control the distribution and use of profits and cannot on any pretext take away the enterprises' profits at will but should adopt various measures to guide and regulate them. Under special conditions, government may adopt certain administrative measures (based on laws) to prevent state-run enterprises from entering into or retreating from certain areas of activities.

Diagram 3 presents a diagrammatic chart outlining the reform ideas of "separating the state's functions and diverging the flow of taxes and profits."

According to the above-mentioned analysis and line of thought regarding the reform, we believe that the power over affairs and financial power of the central government and local governments should include the following: 1) Affairs power of the central government: administrative management power (including national defence, foreign affairs, civilian affairs, public safety, science, education, maritime customs, environmental protection and so forth), power of investing in, and constructing, non-profit-making productive enterprises and non-production enterprises (the enterprises should be endowed with the operation and management power, enforcing the cost of production principle while government may still exercise a definite amount of control) and the macroeconomic regulation power. By so doing, the government's economic management organizations, except those related to planning, finance, auditing, industrial and commercial administrative management, labor management, agriculture, communications and postal and telecommunications, can be greatly streamlined. 2) Affairs power of the local governments: local administrative management power (except national defence, foreign affairs and maritime customs, the contents are same as those of the central government), power of investing in, and constructing, local non-profit making productive enterprises and non-production enterprises, and local macroeconomic regulation power. 3) The financial power of the central government and the local governments

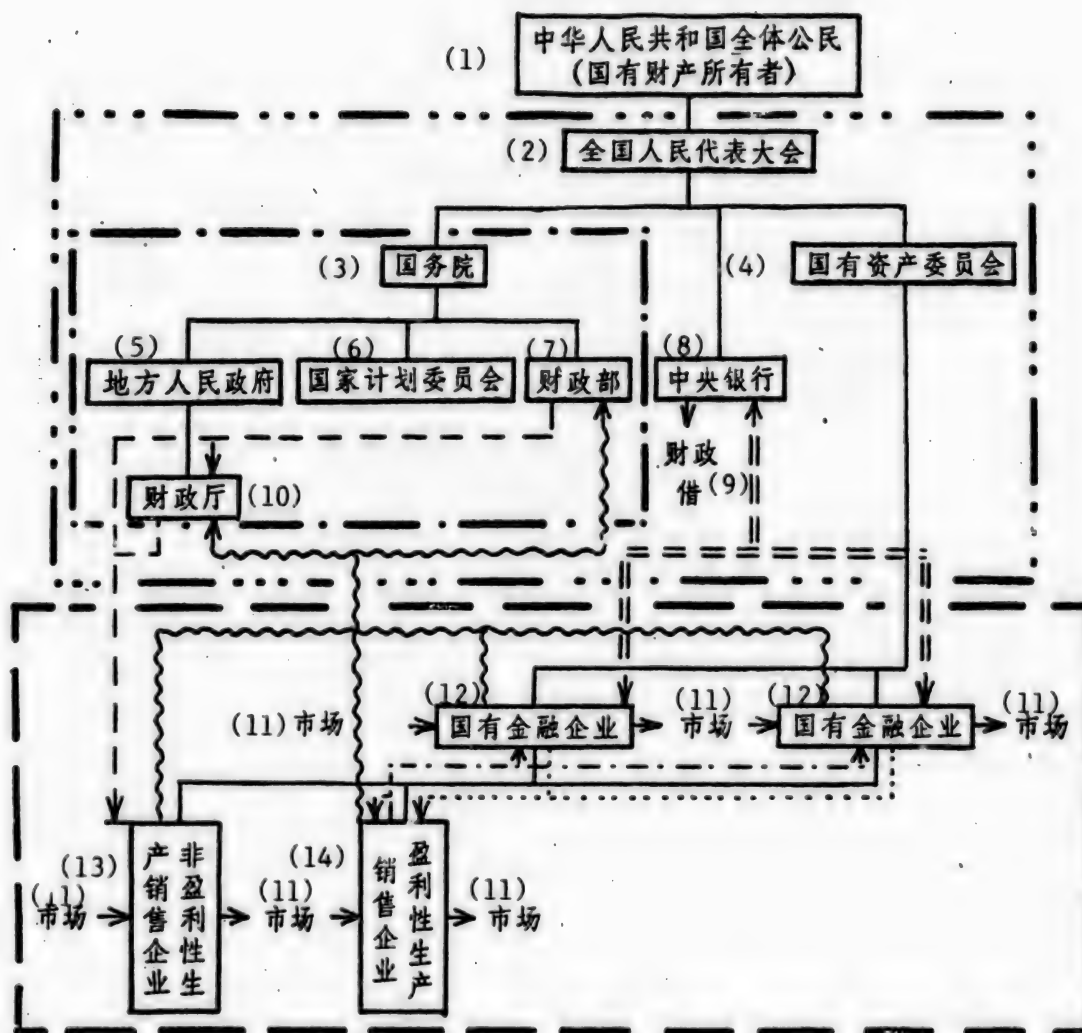


Diagram 3. Target Pattern of Economic Structure--Diagrammatic Chart Illustrating "Separating the State's Functions and Diverging the Flow of Taxes and Profits"

Key:

1. Whole body of citizens of the PRC (state property owners)
2. NPC
3. State Council
4. State-owned Assets Commission
5. Local People's Governments
6. State Planning Commission
7. Ministry of Finance
8. Central Bank of China
9. Financial loans (borrowings)
10. Bureaus of finance
11. Markets
12. State-owned financial and currency enterprises
13. Production and marketing enterprises of a non-profit making nature
14. Production and marketing enterprises of a profit-making nature

should be based on their respective affairs power and a demarcation should be made between central taxes and local taxes. By so doing, our country's finance is neither the big finance of the past nor what some people termed as small finance, or "rice eating" finance, but medium finance, that is, in the financial expenditures, aside from the usual run of expenses such as upkeeping the staff and sundry other necessities, there should be strength left to carry out investment in, and building of, non-profit making social production enterprises and non-production enterprises, in addition to retaining certain financial power for the purpose of macroeconomic regulation. By means of this financial power of macroeconomic regulation, government can guide and regulate the investment direction of profit-making production enterprises, but no longer is vested with the power of making direct investments in profit-making production enterprises. 4) Accordingly, at present maintaining the ratio at 60-40 or 50 percent each in the financial revenues of the central government and the local governments and in the distribution of budgetary funds and extra-budgetary funds is basically appropriate. From now on, following the progress of the reform and enforcing the separation of the functions and diverging the flow of taxes and profits, readjustment may be made, and the readjustment may be mainly concerned with the budgetary funds and extra-budgetary funds.

From a comparison of Diagrams 1, 2, and 3, we can understand the strong points and role of the pattern calling for "separating the state's functions and diverging the flow of taxes and profits."

(1) It is beneficial to realizing the real separation of government from enterprise functions and promoting the formation of a socialist enterprise system. In Diagrams 1 and 2, the state's dual functions are centralized in the government, and the enterprises, as the subordinate organs of the administrative structure, are solidly placed within the scope of government activities, there being no way to realize separation of government from enterprise functions. In Diagram 3, the state's dual functions separately belong to two organizations, namely, the government and the state-owned assets commission, the government's activities are confined to the frame marked by the dotted line - . - . - , and the state's activities are included in the scope of the frame marked by the dotted line - . . . - . Outside of this, the extensive area, that is, the large frame marked by the - - - line, is the large space available for the enterprises' free activities. Detaching the enterprise from government's direct control and placing it in an environment of market competition not only points out the direction for realizing the target of "a small government but a large society" but also creates the conditions for the enterprises to be truly independent and for the formation of an enterprise system.

(2) It solves the problem of value-increment of state-owned assets and offers a short-cut to promoting the development of markets. In Diagram 1, the value-increment of state-owned assets takes a round-about way of

"enterprises--financial departments--departments in charge of enterprises--enterprises, and requires many links or stages and a high degree of centralization, resulting in investment and benefits going out of joint and a low efficiency rate in the value increment of assets. In Diagram 2, the value increment of state-owned assets is divided into two parts. Aside from the traditional going in a round-about way, a portion is carried out individually and by each and every enterprise, showing a trend of dispersal. The results of the scattering and dispersal of funds are that on the one hand difficulties are caused to the renewed banding together of production's important elements and on the other hand practices of each unit tending to its own fond schemes or actually engaging in redundant construction are encouraged, thus aggravating the conflict between microeconomic rationality and macroeconomic irrationality. In the target pattern shown in Diagram 3, the value-increment capacity of the state-owned assets is shown to have an integrated manifestation, the operation and value-increment of the assets involve a small cycle of "enterprises--market, state-run financial enterprises--enterprises. There are few stages or links and the form envisages reciprocal competition. Moreover, there is centralization at certain central points (state-run financial enterprises), forming centralized benefits. At the same time, investment and benefits are directly linked while power and risks are closely joined together. This, on the one hand, is suited to the investment policies' special features of being complex in nature and envisaging huge risks; on the other hand, it provides a relatively good form for the continuous value-increment and independent operations of state-owned assets. In introducing market relations into the realm of the value-increment of state-owned assets, this pattern has discovered an effective road to promoting the growth of markets and developing a socialist commodity economy.

(3) The traditional structure is built on an important supposition, that is, under the unanimity of basic interests on the basis of the system of ownership by the whole people and through the state's direct planning and direct management, it is possible to ensure the highest efficiency in the disposition of resources and the full manifestation of the principle of equity in distribution. However, actual practices have shown that this type of economic structure wipes away the disparity character of interests, muddles the management responsibilities and causes operation of the economy lack force, vitality and efficiency. Hence, in the traditional pattern shown in Diagram 1, the unanimity of interests is manifested confusedly, and even in a deformed manner and, regarding equity in distribution, there seems to be no material basis for it to be continuously strengthened. "Power delegating and ceding of interests" in a preceding stage of the reform stressed the disparity in interests and management responsibilities. The purpose was to solve the problem of motive force and vitality in economic operations. This was necessary. Nevertheless, due to the failure to concurrently advocate and even to discover a form to manifest common interests and the problem of long-term value-increment of assets, the actions of the enterprise

and staff members and workers tended to assume a short-term nature and to become collectivized. Hence, in demonstrating the pattern of the existing structure under Diagram 2, the principle of unanimity of basic interests appeared to have been just a mirage. Enforcing the principle of "separating the state's functions and diverging the flow of taxes and profits" plays up interest disparity and management responsibilities and also pays attention to common interests and the long-term value-increment of assets; on the basis of ensuring microeconomic efficiency, macroeconomic common interests are realized and the unanimity of basic interests is fully manifested.

III. The Practicability and Risks of, and Conditions for, Enforcing "Separation of the State's Functions and Diversion of the Flow of Taxes and Profits Onto Separate Channels"

In our country, enforcing the tentative reform plan of "separating the state's functions and diverging the flow of taxes and profits onto separate channels" not only is necessary but also is practicable. This practicability has the following foundation and basis:

(1) The advocacy of this tentative reform plan is based on the existing foundation of socialist China and is subject to the precondition of acknowledging the predominant position of an economy under the system of ownership by the whole people. Regarding the problem of reform of the ownership system, there are divergencies on two counts: one is the dispute whether it should be abolished or perfected; and the other is the difference between macroeconomic and microeconomic and between centralization and decentralization. Under the conditions in our country, abolition of or casting aside the system of ownership by the whole people is not realistic. The correct road for reforming the ownership system can only be finding some appropriate form to improve it. The tentative reform plan of "separating the state's functions and diverging the flow of taxes and profits onto separate channels" is a form available for selection for improving and perfecting economic management under the system of ownership by the whole people. Speaking from the macroeconomic side and the microeconomic side of the reform of the ownership system, the rental system, contract system, operation management system, and stocks and shares system relate principally to the microeconomic side of the reform of the ownership system whereas the pattern of "separating the state's functions and diverging the flow of taxes and profits onto separate channels" relates not only to the microeconomic side of the reform of the ownership system but also principally to the macroeconomic side. At the same time, we suggest that these two sides of the reform should be suitably joined together.

(2) This tentative plan of reform implies a further intensification on top of the original foundation of the reform. Following the conversion of the reform of the economic structure from "delegating power and ceding interests" to rebuilding the microeconomic foundation and reform of the ownership system, people have begun to turn their attention to

the problems of moral quality in assets management and restriction and restraint of the enterprises' interests. The stalemated condition of the dual structure and the chain of rings in the reform on various sides have made it difficult for the markets to develop and grow and also difficult for the mechanism to change and this in turn has brought up the demand for creating a new organization and a new system in macroeconomic management. "Eating from separate kitchens" and "taxes-in-lieu-of-profits" have mixed together power separation of administrative nature and power separation of an economic nature, forming a simple duplication of the lower levels of the framework of the traditional structure. Hence, the key in deepening the reform lies in how to strictly separate power delegating of an administrative nature and power delegating of an economic nature and how to have them merged together. "Separating the state's functions and diverging the flow of taxes and profits onto separate channels" discovers a road for integrating the reforms on various sides such as between the central (government) and local (governments), the state and the enterprise, macroeconomy and microeconomy, the ownership system and the operation mechanism.

(3) Enforcing the tentative reform plan of "separating the state's functions and diverging the flow of taxes and profits onto separate channels" has a definite foundation in organization and cadres.

(4) The tentative reform plan of "separating the state's functions and diverging the flow of taxes and profits onto separate channels" is made on the basis of starting from the realities of our country's foundation and of the reform, in accordance with the spirit of the decision on reform of the economic structure reached at the 3d plenary session of the 12th CPC Central Committee and under the theoretical guidance of a planned commodity economy.

While the tentative reform plan of "separating the state's functions and diverging the flow of taxes and profits onto separate channels" possesses obvious strong points and functions that cannot be overlooked, at the same time it has rather large risks and difficulties.

(1) Seen from the rise and fall of many companies of an administrative nature in the preceding stage of the reform, people have reason to contend that the state-owned assets commission set up for the purpose of enforcing the tentative reform plan of "separating the state's functions and diverging the flow of taxes and profits onto separate channels" may become a second government and attain the results of wearing new shoes but treading the old road and effecting a change in form but not in essence. In our opinion, such a risk does exist. Indeed, if the state-owned assets commission, following the administrative system, sets up branch organs level by level and exerts a direct management of the enterprises, then it may become a second government. Hence, our suggestion is that there is only one state-owned assets commission, that below it no branch or level-by-level organs will be established in

accordance with the administrative system and that its structure cannot be too large or bulky; below it, the state-owned financial enterprises concretely handle management of the state-owned assets and there may be a number of these enterprises. In law, these state-run financial enterprises are mutually independent and in their operations they compete with each other. They may also set up branch organs in different parts of the country. The state-owned assets commission only indirectly manages the state-run financial enterprises and, via these state-run financial enterprises of a competitive nature, indirectly manages other state-run enterprises. By so doing, the state-owned assets commission will not become the second government.

(2) After the formation of the state-owned assets commission and with it sitting parallelly with the government, new problems of coordination will arise. If their relations are not coordinated well, many conflicts and frictions will also arise. This will adversely affect the government's administrative management and at the same time the operations of the state-owned assets. Hence, it will be necessary to clearly define their respective scope of activities and form of activities. The government's activities should confront society as a whole while the activities of the state-owned assets commission should be confined to only the state-run enterprises. The development plan formulated by the government should be a sort of a development plan of a guiding nature and encompassing society as a whole. Its enforcement can be ensured through liaison between planning and budget and regulation may be carried out through such means as tax reduction and/or exemption, interest subsidies from finance, subsidies and aid.

(3) Setting up the macroeconomic pattern of "separating the state's functions and diverging the flow of taxes and profits onto separate channels" benefits the growth and development of markets and also is dependent on the growth and development of markets. Hence, carrying out this tentative reform plan does not refute, but must tightly grasp, the job of putting the various economic relations in good order. Under the conditions of the still immatured development of the markets, this tentative reform plan may be carried out step by step.

(4) The tentative plan herein mentioned is only a line of thought on the reform and does not constitute yet a concrete program for enforcement.

At the moment, conditions are still not yet ripe for immediately carrying out the tentative reform plan of "separating the state's functions and diverging the flow of taxes and profits onto separate channels." Nevertheless, the line of thought on the reform must be clear-cut and at the same time the necessary conditions must be actively created.

(1) Work must begin on formulating the organization law governing the central government and the local governments and the state-owned assets

operation and management law, the scope of functions and the form of activities of the central government and the local governments must be clearly stipulated, and the organizational system, scope of power and functions and form of activities of the state-owned assets commission must be stipulated.

(2) We must formulate various kinds of conduct regulations ensuring healthy administrative management and economic operations and they must be strictly enforced. This is an important condition to ensure the smooth progress of the reform and its continuous deepening.

(3) Control of currency inflation is a necessary condition for the whole reform; it is an important guarantee to promoting the growth and development of the markets and a must in enforcing the tentative reform plan of "separating the state's functions and diverging the flow of taxes and profits onto separate channels."

(4) In order to facilitate the enforcement of the tentative reform plan of "separating the state's functions and diverging the flow of taxes and profits onto separate channels," we may consider that for a short period the state-owned assets commission may, along with the Ministry of Finance and the bank, be placed under the government and that, as a transitional measure, the portion of the power on investing in, and building of, productive enterprises of a profit-making nature originally under the government's management be transferred to the state-owned assets commission. The state-owned assets commission may actively experiment on gradually opening up, by industries and trades, these investment and construction activities. The first to be opened up may be those industries and trades which already have manifested a relatively stable buyers' market. It may also try out on the deficit-incurring enterprises the "suppositional auction operational system." Regarding this problem, we shall discuss in another article.

(This article was written by Zhang Shuguang (1728 2562 0342) and Yang Zhongwei (2799 0112 0251); Sun Xuewen (1327 1331 2429) and Han Zhineng (7281 0455 5174) participated in the research; and the diagrams were planned by Hanzhineng. March 1987.)

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ECONOMIC JOURNAL ON FUNDS, PRODUCTION, MARKET

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[Article by Wang Zhigang (3769 1807 6921) and Guo Hongyu (6753 4767 3768): "Funds, Production, Market--An Analysis of the Causes of Disparity Between Demand For and Supply of Circulating Funds Over the Past Several Years"--edited by Xu Xiaojie (1776 1420 3773)]

[Text] I. Several Quantitative Relations Between Funds, Production, and the Market

In 1986 there was an extensive debate over the relationship between circulating funds and production. We hold that the question of funds must be studied in relation to production and the market. Examining changes occurring over the past several years in the quantitative relations between funds, production, and the market in China will be conducive to studying the causes of the disparity between the demand for and supply of funds.

Some quantitative indicators related to funds, production, and the market are: total industrial output value, the quantity of circulating-fund loans, the quantity of circulating funds used (which throughout this article refers to the average quantity used), the quantity of funds tied up in finished products, and the velocity of circulation of circulating funds (represented by the number of days per cycle).

Figure 1 shows the relationship as it stood since 1984 between the national rate of growth of industrial circulating-fund loans and the national rate of growth of total industrial output value. Figure 1 shows that since the latter half of 1984, the rate of growth of loans used as industrial circulating funds and the rate of growth of total industrial output value moved in the same direction. (Footnote 1) (Here we use total industrial output value at constant prices, not current prices. This is because although a price change will cause changes in the use of circulating funds, it will not necessarily change the total quantity of loans; although an increase in the prices of the means of production will cause an increase in the use of funds, for one thing, the additional expenditures of purchases of the means of production will be offset by a rise in product prices, and for another

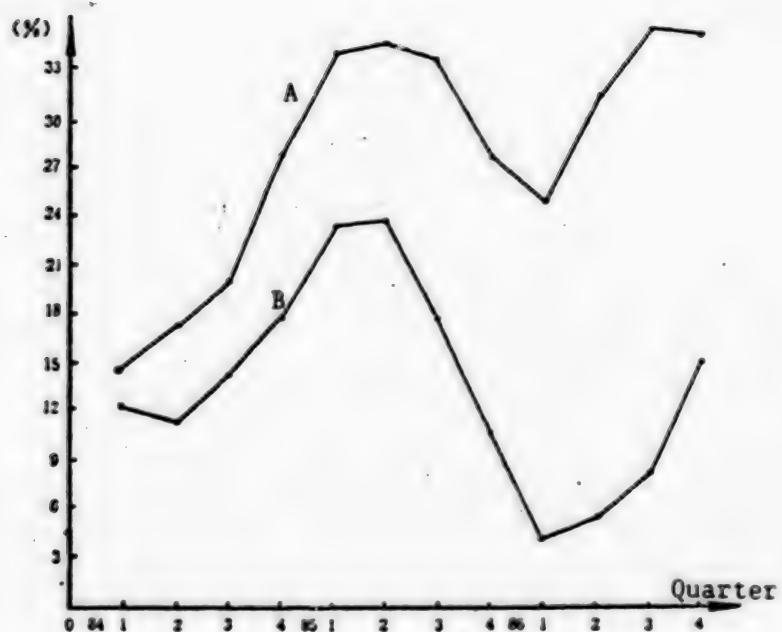


Figure 1. Comparison of Growth of Industrial Circulating-Fund Loans with Growth of Output Value in China

Curve A: Rate of Growth of Industrial Circulating-Fund Loans

Curve B: Rate of Growth of Constant-Price Total Industrial Output Value

thing, an increase in circulating-fund loans acquired by purchasers of the means of production will be offset by a decrease in circulating-fund loans acquired by sellers of the means of production. When we compare the growth in circulating funds used with the growth in output value, we will use total output value at current prices, not constant prices.) However, the growth rate is far greater for loans than for output value. The linear correlation coefficient for the two growth rates is only 0.3041. The gap between them gradually widens from 2.6 percent in the first quarter of 1984 to 27.6 percent in the third quarter of 1986. The bell formed by the two curves in the figure shows that there was no close quantitative relationship between an increase in the quantity of circulating-fund loans and an expansion of the scale of production.

The amount of circulating-fund loans is not identical to the amount of circulating funds used. What affects the scale of production appears to be the quantity of circulating funds used. Strange to say, however, the quantitative relationship between the rate of growth in the quantity of circulating funds used and the rate of growth of total industrial output value is even weaker. (See Figure 2) The correlation coefficient for them is only 0.1885. Figure 2 shows that in the first half of 1985, when economic growth was rapid, the rate of growth in the quantity of circulating funds used which were allocated by quota suddenly soared rapidly; and although subsequently the growth in industrial production slackened, the growth in the use of circulating funds did not correspondingly slow down. From Figure 1 and Figure 2 we can draw the conclusion that a rapid growth in industrial production was impeded by the product market. This judgment tallies with the serious overstocking of products in 1986. The environment for the survival of China's industrial enterprises is undergoing a profound change. The number of variables or dimensions constraining the development of enterprises has increased from 1 to 2; that is, whereas in the past the availability of resources was the only constraint, now the input market and the product market constitute a dual-market constraint.

In 1986, the enterprises generally sensed the rapidly increasing power of the product-market constraint. Overstocking of products widely occurred in various localities. In some localities, funds tied up in finished industrial products increased by over 40 percent. Considering this in connection with the rapid decline in the industrial production growth rate, we may perhaps argue that the growing power of the product-market constraint is the major cause affecting the industrial production growth rate. According to Table 1, since the fourth quarter of 1984, the amount of funds tied up in finished products abruptly increased, causing a corresponding increase in the amount of circulating funds used. However, funds tied up in finished products after all amounted to only around 20 percent of circulating funds allocated by quota. Therefore, quantitatively speaking, the increase in the amount of funds tied up in finished products could not be a major cause of the increase in the amount of circulating funds used which were allocated by quota. Actually, only the slowing down of circulating-fund circulation, which

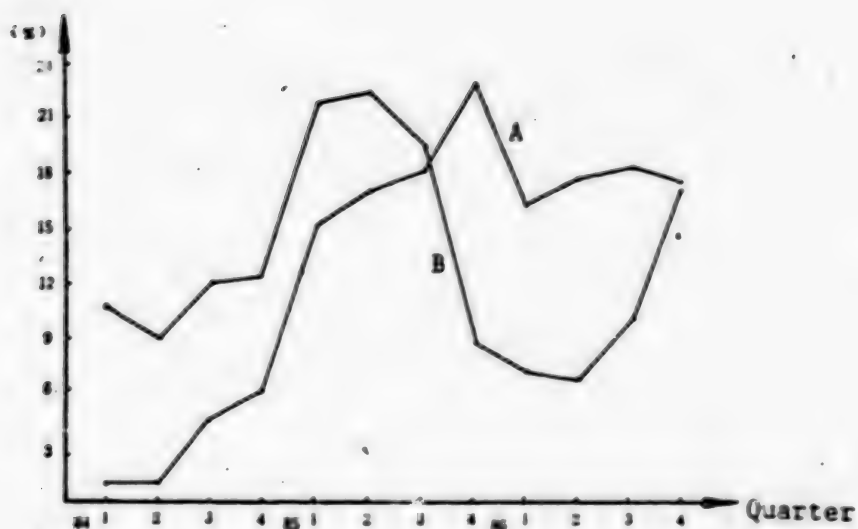


Figure 2. Comparison of Growth of Circulating Funds Used by Industrial Enterprises Under Ownership by the Whole People with Growth of Total Industrial Output Value at Current Prices

Curve A: Rate of Growth in the Average Amount of Circulating Funds Used Which Were Allocated by Quota

Curve B: Rate of Growth in Total Industrial Output Value at Current Prices

Table 1

Year	1984				1985				1986				1987
Quarter	1	2	3	4	1	2	3	4	1	2	3	4	Jan-Feb
A	0.97	3.7	4.3	18.7	17.5	16.33	19.0	22.0	23.2	30.7	30.1	24.8	14.1
B	1.83	3.43	5.3	8.9	11.0	13.2	15.63	19.03	16.9	18.0	17.8	16.3	15.95

Row A: Rate of growth in funds tied up in finished products (percent)

Row B: Rate of growth in amount of circulating funds used which were allocated by quota (percent)

was concurrent with the increase in the amount of funds tied up in finished products, could be the main reason for the great increase in the amount of circulating funds used. Figure 3 depicts the interrelationship between changes in the amount of circulating funds used which were allocated by quota and changes in the velocity of circulation since 1985. The correlation coefficient for them is as high as 0.8554. The effective quantity of circulating funds supplied, which equals the quantity of circulating funds supplied multiplied by the velocity of circulation of circulating funds, is related to the scale of production. Thus, the disparity between the demand for and supply of circulating funds has been caused by a shortfall in the effective supply of funds, which in turn has been caused by the reduced velocity of circulation. Last year, for all industrial enterprises in China which are under ownership by the whole people, a cycle in the circulation of circulating funds allocated by quota was 10.66 days longer than in the year before last. This was the main cause of the increased use of circulating funds and the growing disparity between the demand for and supply of circulating funds.

II. The Contradiction Between Production and the Market Develops Into a Contradiction Between Production and Funds

An analysis of the abovementioned quantitative relations shows that the contradiction between funds and production is due to a shortfall in the effective supply of circulating funds caused by the reduced velocity of circulation of circulating funds, and not due to the absolute quantity of circulating funds supplied lagging behind production growth. Another conclusion is that neither the funds-supply constraint or the product-market constraint can independently condition the enterprises' production activities; it is the contrast between these two constraining forces that can. If we say changes in the amount of circulating funds used roughly reflect changes in the funds-supply constraint, and changes in the amount of funds tied up in finished products basically reflect changes in the product-market constraint, then we can use the ratio of the rate of growth in the amount of funds tied up in finished products to the rate of growth in circulating funds used to approximately indicate the contrast between the two forces: the product-market constraint and the funds-supply constraint. Let us call this ratio the relative growth in funds tied up in finished products. Computed according to data related to industrial enterprises under ownership by the whole people in 28 provinces and municipalities of China (excluding Xizang), for the period January-September 1986, the correlation coefficient for the relative growth in funds tied up in finished products and the growth rate for total industrial output value is as high as -0.7748. Thus, only when the market constraint on production develops into a funds constraint can production at enterprises be affected. In other words, the enterprises themselves lack an autonomous control system and cannot rapidly readjust production to cope with market changes. Under many circumstances, the overstocking of products can neither prevent the enterprises from continuing to produce the

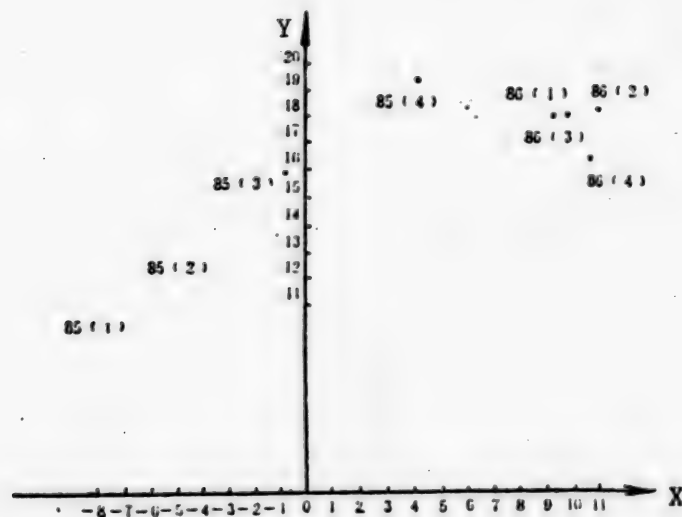


Figure 3. Scatter Diagram for Changes in the Number of Days per Cycle in the Circulation of Circulating Funds and Changes in the Quantity of Circulating Funds Used Which Were Allocated by Quota (This diagram is based on statistics for all industrial enterprises in China which are under ownership by the whole people; 85 (1) means the first quarter of 1985, and so on.)

X-axis: Percentage change in the number of days per cycle in the circulation of circulating funds

Y-axis: Percentage change in the quantity of circulating funds used which were allocated by quota

products nor make them readjust the product pattern. Usually they are forced to readjust the quantity of output only when there is difficulty in obtaining funds, and under current conditions readjustment of the product pattern is making slow progress.

An autonomous control system refers to the enterprises' capability of autonomously readjusting the quantities and patterns of products, materials, and raw materials in the light of signals related to the stocking of products, materials, and raw materials. It is generally believed that this autonomous regulatory function of the economy exists under all economic systems. Factual evidence reveals that under our planned economic system with a high degree of centralization, our enterprises do not possess this capability. When materials and raw materials are supplied by the state, responsibility for selling products is fully assumed by commercial departments, and funds are allocated by the state gratuitously, the enterprises need not respond to signals related to stocking. Since the launching of our economic system reform, these conditions have greatly changed, but the enterprises' system of autonomous control cannot yet function properly. The reasons are rather complicated. They concern the mechanism of functioning of the entire economic system and must be discussed in a separate article. Here we merely give an outline of several more important reasons:

1. Since the launching of reform, the relations of supply, production, and marketing governing the enterprises have changed, and the availability of materials and raw materials to the enterprises can no longer be ensured. The lack of markets in the means of production, the chronic shortage of materials and raw materials, and the sustained rises in the prices of materials and raw materials have caused the enterprises to blindly hoard materials and raw materials in excess of reasonable limits prescribed by the needs of production, resulting in the overstocking or tying up of huge quantities of resources and funds. According to our investigation on enterprises, this situation is extremely common; irrationality in the quantity and pattern of reserves maintained is rampant; and some enterprises keep so large a stock of certain materials and raw materials that it can last up to 10 or 20 years.

2. The organization and pattern of China's enterprises is highly irrational. On one hand, many enterprises follow the mode of production termed "large and complete" or "small and complete"; the degree of standardization of product components and parts is very low, and the extent of inter-enterprise division of labor and cooperation is small. On the other hand, product variety is seriously inadequate, and the enterprises lack reserves of new products and technological reserves. Therefore, the entire production system lacks flexibility. When market conditions change, it is usually difficult for the enterprises to respond rapidly.

3. According to our investigation, the majority of enterprises have neither instituted a meticulous cost accounting system according to the requirements of a commodity economy, nor formulated rules concerning reasonable levels of reserves of materials, raw materials, and finished products. The enterprises' internal subsystems of production, purchasing, marketing, technology, product development, and so on are not organically linked, so that it is difficult for the enterprises to set up an effective internal control and coordination mechanism. Moreover, existing labor and personnel systems and enterprises' internal distribution systems impede operators' efforts to readjust the enterprises' internal structure, so that it is difficult to develop the operators' organizational and innovative functions.

4. Administrative intervention and restrictions on enterprises' decisionmaking powers are major obstacles to the enterprises' exercising of autonomous control. On one hand, administrative departments put pressure on the enterprises through assigning output value targets, so that the enterprises are usually disinclined to make output reduction decisions. (Of course, some leading cadres of enterprises are also eager to go after output value.) On the other hand, administrative departments protect the enterprises under them. Many enterprises turn to administrative departments for protection when they can neither readjust their product pattern nor reduce output. Under China's existing system, administrative departments can indeed put pressure on the banks to grant additional circulating-fund loans to the enterprises, and can intervene in the market to arrange for trade production for the enterprises under them.

When the national economy is in an extensive stage of development, the importance of an enterprises' autonomous control system is not conspicuous when aggregate social demand greatly exceeds aggregate supply. When the extensive stage of development terminates, however, major changes occur in the market environment external to the enterprises, with the sellers' market gradually giving way to one which is partially a buyers' market. When the enterprises are subjected to a dual-market constraint, the lack of an autonomous control system will turn the contradiction between production and the market into one between production and funds. This is the basic reason why the problem of funds will be highly prominent and become the focus of public contention whenever economic fluctuations occur.

III. Resolving the Contradiction Between Production and the Market Is Prerequisite to Resolving the Contradiction Between Production and Funds

Among the contradictions between funds, production, and the market, the one between production and the market is the crux of the problem. The basic way out in solving the circulating funds problems does not lie in tackling circulating funds. In extreme terms, if the enterprises generally institute internal autonomous control systems, restrictions on the quantity of circulating funds supplied will become relatively

unimportant. Consideration of risks and responsibility will force the enterprises to use circulating funds carefully and rationally, and this means self-restraint in using circulating funds. Moreover, if the contradiction between production and the market is alleviated, the circulation of circulating funds will quicken and the disparity between the demand for and supply of funds will disappear. Therefore, reforms should be undertaken to effect structural readjustment, reform the functioning mechanism of enterprises, strengthen funds management, and perfect the market system.

1. Effecting structural readjustment: It should first be acknowledged that the external environment for the survival of enterprises in China has greatly changed. We need not argue which of aggregate demand and aggregate supply exceeds the other. A very real problem facing the enterprises is that selling products is increasingly more difficult and competition in the product market is continuously intensifying. Developing new products, readjusting product patterns, making the production system more flexible, and increasing the ability to cope with market changes are now very pressing tasks facing the enterprises. Macroeconomically speaking, with the completion of the first-phase readjustment of China's national economic structure, that is, readjustment of the proportional relations between agriculture, light industry, and heavy industry, the second and third phases of readjustment, which deal with various industries' internal structure and the enterprises' production and product patterns, are commencing. In previous structural readjustments, administrative departments played the main role and readjustment was by administrative measures. During the first-phase structural readjustment, the administrative system did play an effective role. When structural readjustment develops in depth, however, the administrative system becomes impotent and clumsy. Currently, a pressing task is that entrepreneurs, who constitute the main body of the market system, should be fostered as quickly as possible, and their organizing and innovative functions in core-structure readjustment should be developed. Moreover, the perfecting of the market system should be quickened and contradictions in the core structure should be resolved by means of the market mechanism.

2. Reforming the functioning mechanism of enterprises: Separating ownership rights from operational powers is a requirement for socialized large scale production. It is an effective way to bring about the autonomous management and control of enterprises under China's special economic conditions. Whether this separation works crucially depends on integrating operators with responsibility, powers, risks, and interests. Therefore, operators should be given adequate powers over operation and management. In the current period of economic structure readjustment, greater room for maneuver and readjustment over production and operation should be made available to operators. When progress in creating an external market system is slow, it is particularly important to let operators enjoy greater flexibility in internal readjustment. Currently, bolder reforms of enterprises' internal distribution systems

and labor and personnel systems should be launched. Separating operators' income from staffers' income is an important condition for developing operators' enthusiasm in innovation. Therefore, it should be an important aspect of the reform of the enterprises' distribution systems.

3. Perfecting the market system and quickening the circulation of funds: Developing the market mechanism's role depends on both developing the entrepreneurs' organizing function and instituting and perfecting the market system. A perfect market system includes various categories of markets, like the product, funds, means of production, and services markets. Currently, industrial enterprises generally tend to market their own products. This shows that the existing channels of commodity circulation are far from capable of satisfying the requirements of a planned commodity economy. Commodities can be marketed in three ways, namely, two-stage, three-stage, and four-stage marketing, which mean production-consumption, production-retailing-consumption, and production-wholesaling-retailing-consumption. Different ways of marketing are suitable for different commodities. Quickening the circulation of commodities by merely having industrial enterprises sell larger quantities of their own products and streamlining the links of circulation is highly inadequate. Developing commercial circulation channels' role is more important today than at any time in the past. This is well demonstrated by the selling of 400 million yuan's worth of commodities in a short span of less than a month at the end of 1986 when the commercial department of Tianjin Municipality organized the selling of industrial products to rural areas. Considering the need for quickening funds circulation, the means of production market and short-term funds market should now be gradually established and made open. Creating a short-term funds market can give the enterprises a new channel for raising circulating funds. This can help ease the pressure on banks due to the enterprises' demand for circulating-fund loans, and can help harden the credit constraint on the enterprises so that they will strengthen autonomous control and use circulating funds effectively and rationally. While we are paying attention to the overly rapid growth of funds tied up in finished products, we must surely not ignore the great increase in the use of reserve funds. We have earlier said that funds tied up in finished products after all merely amount to around 20 percent of circulating funds allocated by quota. The basic way out in solving the problem of excessive use of reserve funds lies in creating the means of production market and making it an open one.

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ANHUI TIGHTENS INSTITUTIONAL PURCHASE CONTROL

OW131057 Hefei Anhui Provincial Service in Mandarin 1100 GMT 12 Aug 87

[Text] Recently the provincial people's government issued a circular calling for strict control over purchases made by public institutions in society.

The circular says: The work done by our province to control purchases by public institutions in society was not satisfactory during the first half of this year. The total volume of such purchases in the province from January to June this year was up 29 percent from last year's corresponding period. This increase was higher than the nation's average growth rate. To prevent excessive spending and ensure the fulfillment of our province's purchase-control and expenditure-reduction task set by the state for the second half of the year, the circular urges all localities and departments to do the following:

1. To strengthen control over purchases so as to ensure that it does not exceed the present target. All localities and departments should conduct an inspection to see how well they are controlling purchases made by public institutions in society. Where a big increase in such purchases is found, they should analyze the reason and resolutely cut such purchases by taking practical measures.
2. To be strict in screening and approving applications for purchases of specially controlled commodities. In general, during the second half of the year, no purchase should be approved of the 18 commodities under special control by the state.
3. To beef up coordination among the departments concerned and exercise strict supervision and management. For any purchase without a purchase permit issued by the purchase-control organ, funds should neither be appropriated nor reimbursed by the financial department or the bank, and the commercial and supply departments should not provide the commodity to be purchased and the fuel for the motor vehicle used for transporting that commodity. In addition, the traffic control department should not issue the vehicle-operating license required for the transportation of that commodity.
4. To earnestly strengthen leadership and perfect the purchase-control organ.

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CSO: 4006/0903

HEBEI ECONOMIC STRUCTURAL REFORM ACHIEVEMENTS

SK182352 Shijiazhuang HEBEI RIBAO in Chinese 27 Jul 87 p 1

[Text] Since the 3d Plenary Session of the 11th party Central Committee, our province has adhered to the principle of reform, opening up, and economic invigoration and has scored fruitful achievements in economic structural reform.

1. The decision-making power of enterprises has been expanded and their ability of self-development has been strengthened.

So far, about 36 percent of the province's products are permitted to be produced and sold by enterprises in line with their own situations and market changes, and the above-quota production of 64 percent of the province's products covered by the mandatory plan are permitted to be sold freely according to market prices. The amount of profits retained by enterprises has increased year after year and enterprises have a certain decision-making power in flexibly utilizing the retained profits. On the premise of not surpassing the state ratified amount of wages, enterprises have enjoyed the power to adopt flexible and diversified forms of distribution. About 71.5 percent of state industrial enterprises at and above the county (district under the jurisdiction of city) level have promoted the plant director responsibility system and some enterprises have implemented the system of having plant directors fulfill a certain target during their term of office. Of the province's 2,039 budgetary industrial enterprises, 917 have implemented the contract business system, accounting for 45 percent. More than half of the small state commercial enterprises have implemented the leasing or contract business systems, and some have also implemented the joint-stock system. Along with the expansion of the decision-making powers of enterprises, we have broken through barriers that exist between different departments and regions and we have smashed regional blockades. More than 5,000 industrial and commercial enterprises at and above the county (district under the jurisdiction of city) level have organized and established approximately 1,600 economic associations and established cooperation ties with [number indistinct] provinces and cities and more than 200 counties (cities) throughout the country. A number of enterprise groups and associations that integrate production with science and technology provide "dragon-hookup" services and, with economic and competitive abilities, have emerged.

2. A new pattern under which diversified economic forms coexist has been shaped.

Of the province's total industrial output value in 1978, the output value of state industrial enterprises accounted for 81 percent and that of collective industrial enterprises, 19 percent. Collective and other economic forms number only very few. By 1986, their proportions were, in order, 68 percent, 29 percent, and 3 percent. Of the retail sales in socialist commodities, the proportion of retail sales of state commercial units dropped from 53 percent in 1978 to 43 percent in 1986, that of collective commercial units dropped from 46 percent to 37 percent, and that of private commercial units or commerce of other nature rose from 1 percent to 20 percent.

3. The sector under market regulation has expanded continuously.

Before reform, 188 varieties of commodities in the province were under planned management, a figure that declined to 23 in 1986. About 87.8 percent of the commodity varieties were decontrolled in management. The varieties of fixed-price farm and sideline products managed by the province dropped to 12 in 1986, about 94.5 percent of the products being decontrolled; the varieties of set-price manufactured goods for daily use managed by the province dropped to 110 in 1986, about 91.9 percent of the goods being decontrolled; and the number of province-controlled machinery and electrical products dropped from 77 before reform to 2. The decline was within the framework of market regulation. In addition, in line with the principle of opening more channels and reducing the number of links, we have reformed the circulation system and decentralized 21 second-level provincial wholesale stations to the cities where they are located. All localities and cities have also established 127 commodity wholesale centers of various descriptions. All types of manufactured goods, materials, and farm and sideline product trading centers (depots), and all types of specialized markets have emerged, one after another. We have broken with the circulation system of "being mainly managed by the government and relying mainly on allocation," which were formed under the commodity economic pattern, and which created a circulation network in which various forms, sectors, and channels coexist. Markets for the means of production have progressed prominently. In 1986 nine cities under the jurisdiction of the provincial government and some prefectures and counties have established markets for the means of production one after another. Banking markets have also developed rapidly. We have already established 66 short-term money lending markets among banks. Also the total amount of interleading funds among banks reached 3.13 billion yuan. Long-term money markets have also developed to a certain extent. A network of technology markets has been shaped and more than 170 permanent technology markets have been established. Labor markets have taken an initial shape, thus helping to promote the rational flow of trained personnel.

4. The functions of comprehensive urban services have strengthened.

Our province, as a whole, included 9 cities in 1980 and 17 cities in 1986, and the number of towns rose from 56 to 548. During the Sixth 5-Year Plan period, nine provincial-level cities and three county-level cities invested a total of 660 million yuan in building the infrastructure, including the construction of a group of urban administrative and public utility facilities for water supply and drainage, roads, and means of transportation. All channels throughout the province invested 3.3 billion yuan in urban housing construction, and the average per-capita housing areas in cities and towns reached 7.1 square meters. We have expanded the scope of counties under the administration of the city government and effectively promoted integrated economic development between urban and rural areas. By the end of 1986, the province has as a whole held more than 39,000 enterprises jointly operated by urban and rural areas. The rural areas absorbed more than 20,000 technical workers from urban areas and more than 469,000 peasants went to the cities to engage in commerce or run enterprises. We have witnessed a fairly big progress in tertiary industries. In 1986 more than 53,800 private business households in cities and towns throughout the province were permanently engaged in the tertiary industries and the output value of state, collective, and jointly-operated commercial, transport, catering, and service industries increased several fold over 1978. We have established a regional economy with a focus on cities. By the end of 1986, we established six economic cooperative zones, including the around-Beijing-Tianjin economic zone, the Zhongyuan economic zone, the Yanbei economic zone, the Hebei-Nei Monggol-Liaoning economic zone, the around the Bohai Sea economic zone, and the Hebei-Shanxi-Nei Monggol economic zone, and used cities as centers to absorb and transfer technology, funds, materials, and trained personnel.

5. Foreign trade, scientific and technological exchange and activities to import foreign funds and technologies have become more invigorating year after year.

So far, our province has established economic and technological ties with more than 120 countries and regions. Our province and several cities have established friendly ties with the state of Iowa in the United States, and Nagano and Tottori Prefectures in Japan. The province as a whole has imported more than 160 technological items, which involve more than 130 million yuan, and has operated 64 joint ventures. The total value of export commodities reached \$1.05 billion, an increase of 280 percent over 1978.

6. Reform has helped to develop the socialist productive forces and the livelihood of most people has improved continuously.

In 1986 the average per-capita income of the province's urban residents reached 807.96 yuan; their average per-capita income before reform was only 274.4 yuan.

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HUBEI SURVEYS OVER 900 PLANT DIRECTORS

HK110825 Beijing ZHONGGUO JINGJI TIZHI GAIGE in Chinese No 7, 23 Jul 87

[Article by Hubei Provincial Bureau: "Survey of Markets, Enterprises, and Plant Managers--Analysis of Answers to a Questionnaire Sent to Nearly 1,000 Plant Directors in Hubei"--passages within slantlines printed in boldface]

[Text] To deepen reform and invigorate enterprises is the central task of the current economic structural reform in our country. In order to study the supply system for the means of production in Hubei Province, and create an excellent market environment for enterprise invigoration, the Hubei Provincial Statistics Bureau conducted a province-wide random questionnaire survey, on the same basis but on a larger scale than the trial survey made in Huangshi City in June last year.

The Basic Survey Procedure

In the survey, 1700 questionnaires were issued and 962 [figure as published] valid questionnaires were returned, making the return rate of valid questionnaires 57 percent. Judging by the returns from the surveyed enterprises 248 are large and medium-size enterprises, including Wuhan Iron and Steel Company and No. 2 Motor Company, accounting for 26 percent of the total, and 713 are small enterprises comprising 74 percent of the total. Moreover, 512 are whole-people owned enterprises, accounting for 53 percent of the total, and 449, or 47 percent, are collective enterprises.

Primarily focusing on the three aspects of market environment, important internal factors, and the concepts and qualities of the operators (the plant directors and managers), this survey was made up of 32 questions. Most of the plant directors thought favorably of this survey. In the nearly 1,000 questionnaires, almost 95 percent of the plant directors believe that this survey can explain and reflect issues. Sixty-six percent of the plant directors believe that the content of this survey is not quite comprehensive enough.

An Initial Analysis of Survey Results

1. Regarding the issue of market environment confronting the enterprises.

--/The ratio between plans for the means of production and market purchases./ Judging by survey results, the demand structure for the means of production in Hubei Province's industrial enterprises is as follows: The means of production received through planned distribution account for 23.4 percent of enterprises' demands, while the means of production directly purchased from the market make the other 76.6 percent. Of the 962 enterprises, 53.7 percent have planned distribution targets, while 46.3 percent do not. Of these plants with planned distribution targets, 20 percent can attain 70 percent of their target, 19.6 percent can reach 50 to 70 percent, 24 percent can reach 30 to 50 percent, and 36.4 percent can attain 30 percent or less of their target. Thus, we can see that although 53.7 percent of the plants are still under planned distribution after reform, the means of production needed by 79 percent of the nearly 1,000 enterprises already depends mainly on regulation by market mechanism. Therefore, it is not only necessary but also possible to further reduce the proportion and scope of the means of production under planned distribution.

--/The attitude of plant directors toward reforming the material planning structure./ The state regards the further reduction of the scope and proportion of material distribution as an important aspect of the reform during the Seventh 5-Year Plan. Regarding this decision, the plant directors have different attitudes. Because of the emergence and coexistence of two sources and two prices for the means of production, and because plant directors have already accustomed themselves to the traditional supply patterns, 42.9 percent of them agree to further reduce the proportion and scope of material distribution; 50.7 percent disagree; and 6.4 percent did not make known their positions. The relevant analysis shows that most of the large- and medium-sized enterprises assuming a large distribution proportion of the means of production hold a negative attitude.

--/Two opinions about the two prices for the means of production./ Fifty-two percent of the plant directors believe that the emergence of the two prices is "an inevitable result of price reform" and 48 percent of them hold that these two prices are the "fundamental cause of the increase in transfer links," "creating conditions for speculative activities," and "having more disadvantages than advantages."

--/The opinions about the supply setup in the means of production markets./ Thirteen point five percent of the plant managers believe that "supply in the means of production markets is basically balanced;" 68 percent of them believe that "only some varieties are in short supply in the means of production markets;" and 15.2 percent believe that "there are serious shortages of supply in the means of production markets." From the survey material, at present there is a serious shortage in the supply of some energy resources, like electricity, heavy oil, petroleum, and diesel oil, of which the shortage in the supply of electricity is the most serious. Of the 962 enterprises surveyed, from January to November last year, 81.5 percent particularly felt the shortage of electricity. On average, 29.7 percent of the surveyed enterprises have a shortage of electricity.

2. Regarding the issue of the quality of the industrial enterprises in Hubei Province at present.

--/The absorption capability [xiao hua neng li 3194 0553 5174 0500] of enterprises has not strengthened but has tended to weaken./ Reform of the means of production markets, and in particular the emergence of two prices during price reform, have added difficulties for enterprises in increasing economic effectiveness. Of the nearly 1,000 enterprises, the costs for 95.8 percent have increased over last year. Moreover, the costs for 42.3 percent have increased by over 20 percent. The profits in 83.5 percent of these enterprises have decreased as a result of cost increases. Moreover, the profits in 33.2 percent of these enterprises decreased by over 20 percent. In these enterprises, 77.1 percent can partly absorb the factors for the price increase in raw materials and 22.9 percent to not have any absorption capability at all. Of the enterprises with partial absorption the average capability is 22.9 percent, a decrease of 4 percent from 1985.

--/The enterprises' product quality is poor, their competitiveness is weak, and overstocking of products is serious./ Of the enterprises' products 4 percent are fast-selling gold or silver medal products; 42 percent are good-quality products with good selling prospects; 10 percent are good-quality products with bad selling prospects; 29 percent are ordinary products with a dwindling market; and 15 percent are backward products still with a limited market. Judging by the market competitiveness of products, 25.3 percent are "products with strong competitiveness"; 63.1 percent are "products with ordinary competitiveness"; and 10 percent are "products with poor competitiveness". However, because of the low quality and poor competitiveness of products, the overstocking of products is rather serious. Of the nearly 1,000 enterprises, some 52 percent of them had finished products kept in stock amounting to over 15 percent of their output, and some even reached over 40 percent.

--/As the technology and techniques in these enterprises are backward, it is imperative to speed up technological progress./ According to estimates by the nearly 1,000 plant directors, 9.5 percent of these enterprises have relatively advanced industrial equipment and technology, 57 percent have ordinary industrial equipment and technology, and 33.5 percent have relatively backward industrial equipment and technology. Industrial equipment which has been used for 20 to 30 years or even longer, forms a rather large proportion. According to the plant directors, this is mainly caused by low depreciation rates over a long period of time. In the aspect of production techniques and technologies, 3.6 percent of these enterprises are of advanced level, 24.8 percent are upper-middle level, 42.6 percent are middle level, 18.8 percent are lower-middle level, and 10.2 percent are of the relatively backward level. Thus, we can see that speeding up technological progress seems very urgent for an increase in product quality, strengthening product competitiveness, enhancing enterprises' absorption capability, and raising the economic results and effectiveness of enterprises as a whole.

--/The profit-retaining level of enterprises is low and their self-development capability is not strong./ Of the nearly 1,000 enterprises, the average profit-retaining level is 27.3 percent, of which the whole-people owned enterprises comprise 27.6 percent, collective enterprises 27 percent, large enterprises .5 percent, medium-size enterprises 26.7 percent, and small enterprises 27.1 percent. Over 40 percent of these plant directors said that due to the low profit-retaining level the transformation funds for equipment and technology in these enterprises are insufficient. Moreover, many enterprises feel unable to carry out self-transformation due to the insufficiency of production funds.

--/The difficult state of fund turnover is still relatively serious./ Of the nearly 1,000 enterprises, 63.1 percent can directly reflect the difficult state of fund turnover. Of all the enterprises, 29 percent are affected by the factor of keeping products in stock and taking up a large proportion of funds; 30 percent are affected by the factor of keeping raw materials in stock and taking up a large proportion of funds; and the plant directors in 28.1 percent enterprises felt an insufficiency of loan targets. Besides, the cases whereby enterprises owe funds to each other are on the increase and very serious. Of the surveyed enterprises, 59.6 percent "fail to collect loans owed by other units" and "have bad sales debts." The plant directors in 46.2 percent of the enterprises maintain that the issue of numerous required social apportionings is also one of the important reasons behind the difficult state of fund turnover in the enterprises.

3. Regarding the issue of the quality of plant directors

--/The quality of plant directors is basically good./ According to the survey results, of the nearly 1,000 plant directors, 74 percent are under 45 years old; 24 percent are 46 to 55 years old; and 2 percent are above 55 years old. Judging by their cultural levels, 24 percent of the plant directors have a higher education or above, 44 percent have secondary education (including senior middle schooling), and 32 percent have junior middle schooling or below. Judging by their previous work before taking up the office of plant directors, most of them were engaged in technical, operational, and managerial work. Of the total, 43 percent were doing technical work, 39 percent were doing operational and managerial work, and 18 percent were doing party, as well as other work. Judged by the pattern of appointment, 80 percent were appointed by upper levels, 18 percent were elected by staff and workers, and 2 percent volunteered to take up the posts.

--/The pursuit of becoming entrepreneurs./ In response to the question "Do you want to become an entrepreneur?" 10.6 percent said they very much wanted to; 28.6 percent said they wanted to; 18 percent did not want to; 36.6 percent said they never wanted to; and 6.2 percent did not answer the question. Why do only a small number of them want to become entrepreneurs? In their written opinion reports many plant directors raised the issue that "it is difficult to be a plant director, and it is more difficult to be an entrepreneur," asking the organizations and departments at all levels to provide them with the appropriate environment to do their duty and job.

--/What knowledge do plant directors lack?/ "As a plant director, what knowledge do you lack?" Of the plant directors, 50.5 percent stated that they lacked knowledge of "interpersonal relationships;" 44.8 percent said they lacked knowledge about "business management;" 27.7 percent said they lacked knowledge of "production techniques;" and 16.1 percent held that they lacked knowledge about "organization and leadership."

Through the survey, it is not difficult to see that to deepen reform and invigorate enterprises it is most important to raise the quality of the plant directors themselves.

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HUBEI PROMOTES PLANT MANAGER RESPONSIBILITY SYSTEM

HK130643 Wuhan Hubei Provincial Service in Mandarin 0900 GMT 12 Aug 87

[Text] Hubei Province has made new progress in instituting the plant manager responsibility system. By early August, 1,626 industrial enterprises owned by the whole people--61.3 percent of such enterprises--had instituted this system. This was more than double the figure for the end of last year. These included 265 large and medium enterprises, 70.1 percent of the total number of large and medium enterprises.

According to investigations, 92 percent of the enterprises that have instituted the plant manager responsibility system have operated it well or relatively well. These enterprises have done relatively well in bringing into play the core role of the manager, and have strengthened the production operational system and promoted the reforms of the enterprise mechanism as well as internal coordinated reforms. The enterprises in most prefectures and cities have integrated the plant manager responsibility system with the system of responsibility for targets to be met during a manager's term of office, the contracted management responsibility system, the leasing system, and so on, thus stimulating the deepening of the reforms. Enterprises that have instituted the plant manager responsibility system have also improved and strengthened ideological and political work and democratic management in varying degrees this year.

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JILIN REPORT ON SEMIANNUAL ECONOMIC DEVELOPMENT

SK180935 Changchun JILIN RIBAO in Chinese 28 Jul 87 p 2

[Report by the Jilin Provincial Planned Economic Commission: "Deepen Enterprise Reform, Perfect Contracted Management, and Comprehensively and Penetratingly Launch the Campaign of Increasing Production and Practicing Economy and Increasing Revenues and Reducing Expenditures"--date and place not given]

[Text] The province's campaign to increase production and practice economy has been launched over the course of implementing the guidelines of the two national meetings of provincial governors and the national economic work conference. The general line of the work has been: Using work efficiency as the focus, reform as the motive power, management as the basis, and ideological and political work as the guarantee, we have closely combined the campaign to increase production and practice economy and the deepening of enterprise reform with the comprehensive fulfillment of various tasks to promote sustained, steady, and coordinated economic development. The campaign has now entered a stage of comprehensive implementation, and relatively good results have been observed. During the first half of this year, industrial enterprises fulfilled their production tasks by more than one half, and continually maintained a simultaneous increase in output value, sales income, profits and taxes, and financial revenues. Total provincial industrial output value reached 122.84 billion yuan, fulfilling the annual target by 52.6 percent, or a 13.1-percent increase over the corresponding period of last year. Output value of the industrial enterprises covered by the budget increased by 13.4 percent; the sales income, by 26.2 percent; and profits and taxes, 26.9 percent. Provincial financial revenues amounted to 1.759 billion yuan, a 16.1-percent increase over the corresponding period of last year; the provincial expenditures declined by 3.8 percent in terms of comparable standards.

In launching the campaign to increase production and practice economy, we have paid attention to work in the following four aspects:

1. We have continually improved the target contracted management responsibility system, thus defining targets and responsibilities of the campaign to increase production and practice economy.

The provincial party committee and the government have always considered deepening enterprise reform as the most important task of economic work and have adopted a series of measures to vitalize enterprises. Early in the second half of last year, they began to study questions on contracting enterprises, and concentrated on defining targets, formulating policies, and implementing measures as early as possible. Particularly in implementing the guidelines of the two meetings of provincial governors, they further defined the guiding ideology and the major work orientation, implemented the target responsibility system, brought this year's economic tasks and the targets of the campaign into line with the economic responsibility system, and practiced the method of assigning targets to each level and allowing each level to guarantee fulfillment of its targets. As a result, the targets and responsibilities of the campaign have been defined. Now industrial enterprises in the province covered by the budget have all basically practiced contracted management. Of them, 55.7 percent of large and medium-sized industrial enterprises fix their contracts once a year, and 44.1 percent fix their contracts once every 2 to 5 years.

Our province's enterprise contracted management responsibility system has been implemented in two steps. The first step is the state practicing target contracted management among enterprises; and the second step is the enterprises practicing economic contracts among workshops, work groups, and workers and staff members. On the premise of defining the economic responsibilities assumed by enterprises for the state, by combining the higher levels with the lower levels, and by letting each level guarantee fulfillment of its targets, we have basically formed an economic responsibility system using the contract as the main content.

First, we have implemented among large enterprises the "dual-contract" system, that is, a system of fixing output quotas based on the household and the system of each household retaining everything it produces after paying taxes and profits. Since 1982, we have implemented various forms of the target contracted management responsibility system, with large and medium-sized enterprises as the main targets and the "dual-contract" as the main content. Under this system, not only the quotas of profits and taxes, but also the target of technological transformation have been fixed. The forms of contract are: allowing enterprises to dispose of all products they produce in excess of their annual quotas, fixing the quota of production, and proportionate sharing of products produced above the quota. The major specific methods have been as follows:

- 1) Among those larger enterprises the products of which are competitive, production is relatively stable and potential is great, the system of allowing enterprises to dispose of profits and taxes in excess of their quotas has been implemented and this system has remained unchanged for several years.
- 2) We have stressed the technological transformation tasks and implemented the fixed quota profit and tax delivery contract responsibility system among large enterprises which have a poor ability to raise funds by themselves. This system will remain unchanged for several years.

3) We have implemented the contract responsibility system to fulfill the profit and the profit and tax delivery quotas and the methods of widening the difference of wages and sharing part of the profits for those who have overfulfilled the quotas among medium-sized enterprises with a big potential for increasing production but which have unstable production. The contract quotas should generally show a definite increase over the actual profit and tax delivery quotas of previous years, and the above-quota portion should be shared between the state and the enterprise. If an enterprise overfulfills its profit and the profit and tax delivery quotas by 10 percent, 40 percent of that amount will be given to the enterprise; and if it fulfills more than 50 percent of the quotas, then it may retain all above-quota profits.

The economic results of the 10 large key enterprises which the province has grasped, including the Jilin ferro-alloy plant, the carbon plant, the Jilin Chemical Company, the Tonghua Iron and Steel Company, the Jilin oilfield, the Jilin paper mill, the Shiyan paper mill, the Kaishantun chemical fiber pulp plant, the Changchun tractor plant, and the Changchun textile plant have been good and they have realized the "double guarantees" through the "double contract" responsibility system. During the first half of this year, the output value of these 10 enterprises increased by 15.8 percent over the same period last year. They also increased profits and taxes by 39 percent and tax and profit delivery by 27.2 percent. During the first half of the year, the net increase in profits and taxes was 196.2 million yuan, accounting for 72.4 percent of the total amount of profit and tax growth among all provincial budgetary industrial enterprises and playing an important role in stabilizing the province's financial revenues. The amount of funds raised by these 10 enterprises for technological transformation during the Seventh 5-year Plan period accounted for 51.2 percent of the total investment in their technological transformation plans. After transformation, they will have an additional 3.25 billion yuan of output value and an additional 1.52 billion yuan of taxes and profits. Practice shows that upholding the "double contract" business responsibility system, which remains unchanged for several years among large enterprises, will not only guarantee stable growth in the state financial revenues but will also help find an effective way to speed up the technological transformation of outdated enterprises.

Second, we have tried the business responsibility system of separating enterprise ownership from business power among the 19 enterprises in Siping City which the state has approved to comprehensively carry out pilot work. The specific methods are that the relationship of distributing the base-period profits of enterprises will remain unchanged between the state and enterprises; the income tax for above-quota base-period profits will be reduced to 30 percent; and regulatory business tax will be exempted. According to the size of the enterprise and based on the base-period profits, income taxes will be fixed in line with a fixed proportion of progressive increase. The annual income tax for enterprises with an annual profit of 1 - 2 million yuan should increase progressively by an average of 8 percent, and that of enterprises with an annual profit of more than 2 million yuan should increase progressively by 7 percent. The business operators and enterprise owners should sign a 4-year business contract. In the first half of this year, the output value of these 19 enterprises increased by 6 percent over the same period last year, the sales income increased by 30.1 percent, and the profits and taxes increased by 21.1 percent.

Third, we have adopted various forms of contract business among medium-sized and small enterprises, such as implementing the all-round contract methods among low-profit enterprises, all kinds of contract responsibility systems to reduce deficits among money-losing enterprises, and the experimental work of inviting plant directors to contract for or lease business and of auctioning off or selling the shares to individuals among some small enterprises. These flexible and purposeful methods have achieved very good results. Enterprises responsible for reducing deficits have lowered their deficits each month. In the first quarter of this year, the average monthly deficit at the province's budgetary industrial enterprises reached 15 million yuan. In May the deficits dropped to 7.4 million yuan and in June to 4.09 million yuan. If calculated in terms of comparable standards, deficits in the first half of the year remained the same as that of the corresponding period of the previous year.

Fourth, we have continued to improve all kinds of economic contract responsibility systems among enterprises. While grasping the state-proposed target contract business system among enterprises, we have also considered the perfection of the enterprise economic responsibility system as a guarantee for realizing enterprises' contract target. We have combined enterprises' contract targets with the targets for increasing production and practicing economy and made them the general target for enterprises and have implemented the methods of breaking down the quotas, contracting business, and guaranteeing economic results at each level; carrying out the graded accounting system; and selecting our own way of distribution in an effort to closely combine the responsibility powers, and profits.

The enterprise economic responsibility system is diversified. Briefly, this system embraces the comprehensive contract and single-item contract forms.

1) We have implemented the comprehensive contract system among enterprises that can carry out independent accounting and which are responsible for their own profits and losses. Some of them have implemented the system of giving remuneration according to product quality, quantity, consumption, and profits; some have implemented the all-round contract system of being responsible for profits, output, expenses, and the total amount of wages. Beginning this year, the Baicheng City distillery has implemented the cost comprehensive contract and the wage quota floating economic responsibility systems among its three subordinate branch plants in an effort to further boost workers' enthusiasm. Comparing the first half of this year with the same period last year, its output value increased 15.4 percent, and its taxes and profits increased 200 percent; its workshop working funds dropped by 8.1 percent, its circulation of funds increased 38.2 percent, and its taxes and profits handed over to the state have surpassed last year's annual total.

2) We have implemented all kinds of single-item contract systems. There are scores of different types of contracts such as the contract to develop new products, the contract to sell products that are in excessive supply, the contract to purchase materials that are in short supply, the contract to produce above-quota products that are in short supply, and the contract for single-item projects; all these contracts have yielded remarkable results. For instance, the Jilin Chemical Industrial Company has implemented the contract

system of producing 23 above-quota products that are in short supply. In the first half of the year, it overfulfilled the production plan by 46,800 tons, increased its output value by 180 million yuan, and increased its profits and taxes by 34 million yuan, accounting for 27 percent of the total amount of increase in profits and taxes in the first half of the year. The bonuses for workers only accounted for 1.9 percent of the amount of increased profits, and taxes came from the above-quota products.

Fifth, we have persisted in implementing all relevant state policies among all contract business enterprises. Over the past few years, we have implemented the target contract business responsibility system along with implementing the system of substituting taxes for delivery of profits. We have upheld the principle of integrating state interests of those of enterprises and the individuals; the principle of combining responsibility with powers and profits; and the principle of integrating enterprise invigoration with strengthening macroeconomic management. In our specific work, we have paid attention to the following issues:

1) We have implemented the target contract system and have ensured a steady increase in financial revenues. Instead of delivering profits and taxes to the state according to their revenues, large or small, enterprises have all guaranteed to fulfill their delivery plans. In 1982 the province's total industrial output value increased 7.6 percent over the previous year, and revenues increased 12.1 percent; in 1983 the output value increased 14.7 percent, and financial revenues increased 21 percent; in 1984 the output value increased 13.6 percent, and financial revenues increased 21.6 percent; in 1985 the output value increased 14.8 percent, and financial revenues increased 26.2 percent; and in 1986 the output value increased 8.1 percent, and financial revenues increased 9.5 percent. The growth in financial revenue surpassed the growth of output value in 5 successive years.

2) We have rationally fixed the contract base figures and intensified the momentum for developing enterprises. Over the past 3 years, the profit retention of the budgetary enterprises has increased by 59.3 percent and the average per-capita profit retention has increased from 359 yuan to 530 yuan. Through adopting the method of deducting a certain fund from the revenue instead of listing it as an expenditure, enterprises have received 223 million yuan of funds with which to carry out their above-target technological transformation projects. The flexible financial resources of enterprises and their momentum for development have been strengthened.

3) We have combined responsibility, powers, and profits and properly handled the relations among the state, enterprises, and workers. While carrying out the target contract business system, we have paid attention to the "clarity" of "responsibility"; set the contract targets; and enabled both the state and enterprises have "targets to follow." We have also intensified the "separation" between "ownership and business powers" and enabled enterprises to enjoy greater business decision-making power and property utilization power during the contract period. We also intensified the "transparency" of "profits" and enabled enterprises to directly witness the profits that come from raising business achievements in an effort to boost the enthusiasm of the business operators and the producers.

4) We have strengthened guidance on the use of funds owned by enterprises in order to prevent the consumption funds from becoming inflated. In this regard, we have adopted three methods: A. Exercising administrative restrictions. The provincial government has definitely stipulated that above-quota funds retained by enterprises should be used primarily to tap their potential, conduct transformation, renew equipment, develop new products, import new technologies, replenish the private floating funds, and handle left-over problems. B. Rationally defining the proportion of the five funds provided by the normal profit retention of enterprises. In issuing bonuses, the bonus tax should be paid in line with stipulations and no tax exemptions and reductions should be allowed. C. Implementing the responsibility system in examining technological transformation projects and controlling the scale of investment in fixed assets. Because of our sufficient attention to guiding enterprises to spend their private funds on developing production and conducting technological transformation, we have effectively controlled the increase in consumption funds.

2. We have vigorously increased the production of readily marketable products, and strived to effect increases in output, sales, and income.

This year, in the campaign to increase production and practice economy, we have effected increases in output, sales, and income primarily through increasing production of readily marketable products, developing new products, creating quality products, and increasing the production of export goods.

1) We have vigorously increased the production of readily marketable products. The major measures have been as follows: First, we have worked out plans to increase production and income in line with the needs of products. The province has mainly arranged forces to increase the production of 60 readily marketable products with great output value and high efficiency; and various localities have, at the same time, organized forces to increase production of 420 products. Second, we have given guarantees in the fields of materials, transportation, funds, electricity, and foreign exchanges, with the emphasis on the supply of raw materials. Third, we have developed lateral integration. The province has imported 106 brand-name and quality products from Beijing, Tianjin, and Shanghai Municipalities and have raised the level of our products through these imported products. In cooperation with the Tianjin bicycle plant, the Changchun bicycle plant has gone from deficits to profits, resulting in a 48.5-percent increase in profits and taxes in the first half of this year. In addition, the province has organized five large-scale enterprise groups, namely the ferro-alloy plant, the carbon plant, the washing machine plant, the No. 1 vehicle plant, and the Jilin Chemical Industrial Company, thus promoting the increase in production of readily marketable products. Fourth, we have strengthened service work, implemented methods of conducting management every 10 days and making analysis every month, and organized and dispatched 36 work groups to enterprises to handle affairs and solve problems on the spot. Thanks to these effective measures, in the first half of this year, those readily marketable products brought an extra 653 million yuan of output value to the province, accounting for 43.9 percent of the province's total added output value.

2) We have positively developed new products. This year the province has planned to develop 2,500 new products, with the emphasis on 400 new products of 30 series. The provincial financial departments have released 10 million yuan in discounted-interest loans to develop new products and have adopted some encouragement measures, thus effecting a relatively big progress in developing new products. In the first half of this year, the province developed 1,468 new products, fulfilling the annual target by 58.7 percent; created 660 million yuan in output value; and yielded 120 million yuan in profit and tax, showing an increase of 9.6 percent, 6.9 percent, and 20 percent respectively over the corresponding period of last year. The newly developed products have strengthened the competitiveness of the products by enterprise groups. In the first 5 months of this year, the 30 series, including Changbaishan natural medicines, delicacies, and differential chemical fiber, developed a total of 233 new products, accounting for 20.6 percent of all newly produced goods.

3) We have vied with one another to create quality products. Since the beginning of this year, the province launched the "five-examination and five-observation" and the "three-guarantee and one-creation" activities for creating quality products. We have intensified the sense of quality, strictly set quality standards, strengthened service work and raised the level of products. The trend of decline in quality of products has been changed, and product quality has begun to rise steadily. In the first half of this year, 78.6 percent of the province's products were up to standard, showing a relatively big increase over the corresponding period in 1986, and 22 percent of the products were named as quality ones, in accordance with a sample survey of the products conducted by the state. At the same time, we have strictly dealt with declined quality in some products.

4) We have increased the production of export goods that can earn foreign exchange. This year the provincial financial department has allocated 10 million yuan for supporting export-oriented enterprises to develop production and has implemented preferential policies among enterprises that produce export goods for earning foreign exchange in an effort to increase the production of export goods by a large margin. During the first half of this year, the export volume of the province's industrial and mining products increased 65.3 percent over the same period last year.

3. We have simultaneously carried out the work of upgrading enterprises and increasing production and practicing economy and have striven to achieve management results.

During the drive to increase production and practice economy, we have paid attention to closely combining the campaign to increase production and practice economy with the campaign to upgrade enterprises in line with the guiding ideology of the provincial party committee and government on "relying on management internally and integration externally;" made them promote each other; and stimulated the development of the campaigns.

1. We have made unified arrangements for upgrading enterprise management and for the campaign to increase production and practice economy. During enterprise upgrading, we have also considered the plans to increase production and practice economy as the annual target for upgrading enterprises, and the upgrading of enterprises as a measure to guarantee the realization of the plan of increasing production and practicing economy, in an effort to have unified targets and plans for organizing and implementing the work. While specifically organizing the work, we have assigned responsibilities to various fronts and departments and have ensured the realization of the target to increase production and practice economy through grasping management.

2. We have strengthened spadework and laid a good foundation for increasing production, practicing economy, and upgrading enterprises. During the campaign to increase production and practice economy, in line with the major points of enterprise upgrading, we have grasped enterprises' spadework and the building of shifts and groups and have intensified the spadework related to enterprise management. Based on Changchun City's investigation among 124 city-level industrial enterprises, 96.7 percent of their products are up to standard and 94 percent of their technologies are perfect. About 84.7 percent of the enterprises have been graded according to their output, and about 91.9 percent of the enterprises' original records are perfect. At the same time, we have strengthened the building of shifts and groups. About 70 percent of the province's budgetary industrial enterprises have launched emulation drives among their work shifts and groups, about 38 percent of which have been organizationally consolidated.

3. Based on improving quality and reducing consumption, we have strengthened management over some specialized sectors. The provincial government has approved and transmitted to the lower levels the "proposal for strengthening management over industrial enterprises' raw materials and energy consumption"; the "proposal on strengthening management over industrial enterprises' circulating funds and tapping potential of funds"; and the "proposal on further reducing workshop funds of state industrial enterprises and enterprises' management expenses." The province as a whole, from the higher to the lower levels, has established a system to guarantee the accomplishment of the tasks to improve product quality, reduce consumption, speed up the circulation of funds, and reduce the workshop funds and enterprise management funds and has grasped the implementation of the targets for single-item projects to guarantee the realization of the overall target and grasped the implementation of the department responsibility system to guarantee the realization of the provincial objectives. For example, to ease the contradictions between the supply of and demand for funds and to stimulate enterprises to raise economic results, we have proposed a fighting objective of accelerating the circulation of funds by 4 percent and of tapping 450 million yuan of funds. The economic commissions, competent industrial departments, industrial and commercial banks, financial departments, and enterprises at all levels have established and improved their management systems at each level and prominently grasped two links, such as the funds for producing finished products and funds from final accounts, in an effort to accelerate the circulation of funds. In addition,

we have also consolidated and improved the economic accounting system of plants and summed up the province's experiences in promoting "inner plant banks" in the past few years. During the first half of the year, the circulation of the province's fixed quota funds accelerated by 12 percent and the funds for producing finished products dropped by 5.7 percent over the same period last year. We tapped 277 million yuan of funds.

Combining the campaign to increase production and practice economy with the upgrading of enterprise has not only guaranteed the fulfillment of the targets for increasing production and practicing economy but also promoted the upgrading of enterprises. In the first half of this year, through the provincial assessment and examination, 41 enterprises were named as provincial-level advanced enterprises. Of them, the Jilin Chemical Industrial Company's dye plant and oil refinery passed the state-level appraisal.

4. We have fostered the spirit of socialist enterprises and fully displayed the guarantee role of the ideological and political work in launching the campaign to increase production and practice economy.

First, we have permeated the campaign to increase production and practice economy with the ideological and political work and encouraged workers and staff members to make more contributions. For instance, after the Ministry of Petroleum Industry called on petroleum enterprises throughout the country to increase crude oil output by 1 million tons, the Jilin oilfield volunteered to shoulder the task of increasing its output by 300,000 tons. The oilfield mobilized vast numbers of workers and staff members to carry forward the spirit of voluntarily adding the burden and daring to shoulder heavy burdens and to be determined to make great contributions. Originally, its underground work section planned to fracture 8 oil wells monthly; but it voluntarily raised the task of fracturing 20 oil wells monthly. In May it set a new record of fracturing 30 oil wells. By carrying forward the spirit of racing against every minute or second and daring to fight a tough battle, it sunk an oil well in 25 days on an average as against 40 days in the past. By carrying forward the spirit of respect for science and daring to blaze new trails, it organized forces to conduct joint research for problems in fracturing skills. As a result, the cost for fracturing each well dropped by 4,000 yuan, thus saving 1 million yuan annually, and each well's daily oil output increased by 8.8 tons. In the first half of this year, the total output of crude oil by the Jilin oilfield reached 1,343 million tons, an increase of 203,000 tons, or 17.8 percent, over the corresponding period last year.

Second, we have vigorously fostered the spirit of enterprise and strengthened the sense of making progress among workers and staff members. In launching the campaign to increase production and practice economy, the provincial party committee and government have paid attention to cultivating the spirit of socialist enterprises; extensively propagated Jilin Chemical Industrial Company's spirit of "uniting as one, making progress, and doing a solid job," and its style of "working strictly, painstakingly, actually, and rapidly"; organized many cadres to hold training classes at the Jilin Chemical Industrial Company, and summed up and exchanged the experiences gained by 10-odd enterprises in learning from the company. As a result, the spirit of socialist enterprises, characterized by plain living and hard struggle, has been further

deepened. Aiming at producing new cars, educating new persons, and fostering new atmosphere, the No. 1 vehicle plant has established its spirit of "striving for winning the first place and creating new enterprises." In order to accelerate the pace of changing models, tens of thousands of workers have worked extra shifts or hours, engineering and technological personnel have worked even on holidays, and cadres have worked on the spot for more than 12 hours every day. As a result, under continuous production the plant has prefulfilled the task of changing models. Beginning in January this year, this plant conducted the batch process of the new-model Jiefang-brand cars which reach the international level of the 1980's, and has won the bidding on the international markets three times in a row. In only 6 months of operation, it has reached the designed production capacity. In June it produced 5,785 cars. Early this year, the plant raised the fighting goal of "producing 10,000 more cars and increasing revenues by 100 million yuan." In the first half of this year, it produced 24,268 new model Jiefang-brand cars, 7,548 more than the planned figure, and increased revenues by 62.6 million yuan.

Third, we have extensively conducted the emulation drive of making contributions and fully exploited the intelligence and talents of cadres, workers, and staff members. At the beginning of this year, the provincial government launched a province-wide activity of offering suggestions and advice and vying with one another in making contributions. Focusing on increasing production and practicing economy, various localities and trades extensively conducted various types of emulation drives, thus providing a good ideological foundation and mass foundation for the campaign to increase production and practice economy. According to incomplete statistics from 8 localities of the province, from January to April, 114,362 reasonable suggestions were offered, of which 40,838 were adopted and 19,529 were fulfilled. Meanwhile, 4,524 technological transformation items were realized. A total of 85.28 million yuan were saved through various kinds of economizing activities.

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SHANDONG MEETING ON DEVELOPING POVERTY-STRICKEN AREAS

SK080940 Jinan Shandong Provincial Service in Mandarin 2200 GMT 7 Aug 87

[Excerpts] The third provincial on-the-spot meeting on the development of the Yimeng mountainous area, which was also a provincial meeting on aiding the poor, concluded in Linqu on 7 August after a 4-day session. The meeting summed up and exchanged experiences in developing and building the Yimeng mountainous area and in aiding the poor gained during the past 3 years. It discussed and revised the draft plan for the comprehensive development of the poverty-stricken counties in the Yimeng mountainous area, and studied the ways for poverty-stricken areas, villages and households to further eliminate poverty and achieve prosperity at a quicker pace.

Jiang Chunyun, deputy secretary of the provincial party committee, and acting provincial governor, presided over the meeting and delivered a speech. Yang Yanyin, standing committee member of the provincial party committee, and Ma Zhongchen, provincial vice governor, attended. Also attending were responsible comrades of various prefectures, cities and 14 poverty-stricken counties. Responsible comrades of the Ministries of Commerce and Foreign Economic Relations and Trade, and other relevant departments were also invited to the meeting.

Jiang Chunyun pointed out: The tasks for aiding the poor faced our province are still very arduous. First, judged from the overall situation, the economic development of the poverty-stricken areas is only at the beginning, and two-thirds of the poverty-stricken villages still do not have adequate food and clothing to date. Second, the aid-the-poor work has been developed in a very uneven manner. In particular, in the areas near reservoirs, remote mountainous areas, beach areas along Huang He, and villages having rather big problems in potable water supplies, the difficult conditions in livelihood and production have yet to be radically changed. More than 5.8 million people throughout the province still have difficulty in securing portable water supplies, and in the Yimeng mountainous area, 2,180 villages are not accessible to cars, and more than 3,500 villages do not have electricity.

Jiang Chunyun stressed: In line with the principle of long-term and stable economic development, and the general demand of the aid-the-poor work set forth by the central authorities, we should gradually bring the development and construction of poverty-stricken areas into the orbit of planned and

scientific development. Planned development means that we should include the development and construction of the poverty-stricken areas, and the provincewide aid-the-poor work in the plan for the entire national economic and social development, and set forth short- and long-term fighting goals and corresponding measures. Scientific development means that we should have a scientific approach and methods to explore the best way to eliminate poverty and achieve prosperity in order to achieve the best results. For this purpose, we should adhere to the ideological line of seeking truth from facts, suit our measures to local conditions, and establish a reasonable economic structure. We should persistently act according to the law governing the commodity economy, do a good job in the rational disposition of the major elements for production, and maintain the integrity of economic results, ecological benefit, and social benefits in order to achieve a benign cycle in the economy and the ecology.

Jiang Chunyun concluded: To invigorate the economy of the poverty-stricken areas and eliminate their poverty, the only way out is to carry out reform. Poverty-stricken areas should continue to display their spirit of bravely exploring and creating the new and strive to quicken the pace and do a better job in either the contract system at enterprises, or the second step of the rural reform. At present we should step up the implementation of the guidelines of the Zhucheng on-the-spot meeting, improve the dual management systems, develop the integration of agriculture, industry and commerce, strengthen county-level authority, and organize well the coordinated development of the commodity economy. After this meeting, we should further mobilize the masses of cadres and people and organize still better the forces of various quarters to create a new upsurge in eliminating poverty and achieving prosperity, and to work hard to fulfill the various tasks for the development and construction of the poverty-stricken areas, and for the provincewide aid-the-poor work.

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SHANXI POLL SHOWS CAUTIOUS APPROVAL FOR REFORM

OW110250 Beijing XINHUA in English 0156 GMT 11 Aug 87

[Text] Taiyuan, 11 Aug (XINHUA)--A recent poll conducted in northern China's Shanxi Province shows that most people support China's reforms and the open policy, but some worry about side-effects.

Between mid-March and late June, the propaganda department of the Shanxi Provincial Committee of the Chinese Communist Party conducted a province-wide survey of 10,000 people--4,000 urban workers, 3,000 farmers and 3,000 college students.

Out of the 4,000 urban workers questioned, nearly 87 percent considered China's economic reforms imperative. More than 76 percent of them shared the view that the open policy is an indispensable part of China's modernization program. But some people said that they were worried about the side-effects of these new steps and about China taking the capitalist road.

Out of the 3,000 farmers surveyed, about 73 percent agreed that the party's rural policy has made both the state and the people richer, and that the initiative-based responsibility system is what they need most.

However, 12 said that the policies of the central authorities are all very well, but officials at lower levels fail to implement them properly, dampening farmers' initiative for commodity production.

The survey showed that the number of farmers upholding the present policies rises with their age, because older people can compare recent years with their bitter experiences in the chaotic "cultural revolution" (1966-76) and in the period of the practice of equal income distribution known as "sharing rice out of the same big pot."

As Shanxi is a poor province, nearly 90 percent of the farmers questioned had an average income of less than 200 yuan per person in 1978 before China began pursuing reforms. But only 27 percent of them were at that level in 1986.

Out of the 3,000 college students questioned, 88 percent considered reforms the self-perfection of the socialist system, and 81 percent agreed that the open policy is inevitable for the development of modern society and is sure to bring about all-round social progress.

But a few students expressed skepticism about the success of the country's reforms and biased views about the open policy.

Out of the 10,000 people surveyed, 72 percent regarded the past eight years as the "best period" since the founding of new China in 1949. And 18 percent said that the present situation is fine but there are still many problems.

Over 90 percent of the 10,000 people surveyed supported the socialist system and the communist party leadership.

Nearly 95 percent of the college students questioned agreed that the socialist road is the proper historical option taken by the Chinese people following a long period of practice. Only 0.57 percent said that socialism is incompatible with China's actual conditions.

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BRIEFS

SHANGHAI CONTRACTS TO ENTERPRISES--Shanghai, 7 Aug (XINHUA)--Shanghai, China's leading industrial center, has contracted out the first batch of 22 large and medium-sized commercial and service undertakings in a bid to boost the ability of self-accumulation and self-development of state enterprises. Under the new system, the 22 commercial enterprises, with 7,000 employees, will assume explicit economic responsibility and enjoy full managerial authority and economic benefits, while the state retains the ownership. The term of contract is set at two years. During this period, these enterprises are required to pay 8.83 percent more profits than in 1986. If they live up to the terms of their contract, they will be allowed to retain part of their increased profits. If they fail to meet targets, they will assume responsibility for losses. There are 787 large and medium-sized commercial undertakings in Shanghai. [Text] [Beijing XINHUA in English 1343 GMT 7 Aug 87 OW] /9738

CSO: 4020/0259

GUANGDONG ISSUES CAPITAL CONSTRUCTION CIRCULAR

HK060742 Guangzhou Guangdong Provincial Service in Mandarin 0900 GMT 5 Aug 87

[Text] The provincial people's government issued a circular the day before yesterday, demanding that all areas actively: reduce capital construction investments not covered by plans; stop or suspend the construction of buildings and houses; concentrate funds on the key state construction projects; and ensure fulfillment of plans for key state construction projects.

The circular added: People's governments and departments at all levels must strictly forbid engaging in construction projects not covered by plans. With regard to funds for capital construction projects covered by plans, it is forbidden to arbitrarily expand construction scales or increase the contents of construction. Regarding the city and prefectural authorities' jurisdiction over the examination and approval of small-scale construction projects that are based on locally raised funds, such projects must be arranged in accordance with the relevant targets set in the annual provincial investment plan. If such projects exceed the planned construction scales, it is imperative to voluntarily cut down the projects or have the construction work postponed until next year.

The circular said: All areas must conscientiously do well in promoting the design and reexamination of large- and medium-sized construction projects, as well as key construction projects. It is imperative to revise and redesign those projects that are irrationally designed using backward technology and facilities, or with overly high standards.

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HUBEI GOVERNOR ON REDUCING CAPITAL CONSTRUCTION

HK110341 Wuhan Hubei Provincial Service in Mandarin 0900 GMT 10 Aug 87

[Excerpts] In his speech at a provincial financial work conference which concluded on 8 August, Guo Zhenqian, governor of the provincial government, stressed: We must continue implementing the State Council's guiding principles for "three guarantees and three reductions," and resolutely control the scale of capital construction investments.

Governor Guo Zhenqian noted: Since the beginning of this year, although areas throughout our province have scored initial achievements in compressing the overheated atmosphere and controlling the scale of capital constructions investments, our problems with the excessively large scale of capital construction investments have not been solved yet. A number of areas and some departments do not pay attention to the interests of the whole and are still promoting construction projects not covered by plans. Regarding this, relevant departments must conscientiously check up on this, and strengthen supervision. Regarding construction projects in progress, we must conduct reexaminations, and order the suspension of all unqualified projects. Regarding the projects and construction designs that have not been carried out yet, we must conduct reexaminations, and order the revision of those projects and designs that exceed the prescribed scales and standards.

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NORTHEAST ECONOMIC ZONE'S FIRST HALF ACHIEVEMENTS

SK190026 Shenyang DONGBEI JINGJI BAO in Chinese No 171, 28 Jul 87 p 1

[Report by the statistical information center of the Northeast Economic Zone: "Deepening the Drive To Conduct Reforms Has Brought about the Vitality of Enlivening the Enterprises"--date not given]

[Text] During the first half of this year, the provinces and autonomous region of northeast China were filled with vitality in both production and construction by extensively carrying out the "campaign" to increase production and practice economy, as well as increase income and curtail expenses while deepening the drive to conduct reforms to enliven enterprises, thus bringing about brisk sales in markets of both urban and rural areas and a good trend of stable and harmonious development in the national economy. Presently, what merits attention is that the imbalance and contradiction between social general supply and demand are greater than before and that economic results are not good enough. All of these should bring the great attention of various departments and localities.

In the agricultural field, the acreage of farmland sown with grain crops and investment in agriculture increased. According to an estimate of the agricultural sample investigation team of the three northeast provinces, in 1987 the three provinces planted 210 million mu of farmland with grain and soybean crops, a 4.745 million mu increase over the 1986 figure. Judging from various provinces, Heilongjiang Province has planted 110 million mu of farmland with grain and soybean crops, a 2.8 million mu increase over the 1986 figure. It has planted 10 million mu of farmland with rice, a high yield crop, a 240,000 mu increase over the 1986 figure and 30.42 million mu of farmland with corn, also a high yield crop, a 5 million mu increase over the 1986 figure. Jilin Province has planted 53.18 million mu of farmland with grain and soybean crops, a 1.13 million mu increase over the 1986 figure, and Liaoning Province has planted 46.405 million mu of farmland with grain and soybean crops, a 815,000 mu increase over the 1986 figure. All of these will play an important role in stabilizing the total grain output of northeast China.

Agricultural funds and materials used in agriculture increased. According to the investigation data, Heilongjiang Province has invested about 2.2 billion yuan in agriculture this year, a 570 million yuan increase over the 1986

figure. The loans supporting agriculture released by the financial departments, agricultural banks, and rural credit cooperatives of Liaoning and Jilin provinces are larger than the 1986 figure. The increase of funds invested in agriculture has played an important role in assuredly saturating the demand for means of production. During the first half, the total retail sales of means of production reached 4.177 billion yuan, a 23.1 percent increase over the 1986 figure, topping the peak scored over the past few years.

In the industrial field, industrial production has steadily increased, and light and heavy industries simultaneously achieved progress. During the first half, the northeast economic zone realized 72.488 billion yuan in total industrial output value, an 11 percent increase over the 1986 figure, which reached 7.7 percent. Jilin and Heilongjiang provinces respectively scored a 13.1 percent and 11.8 percent increase in this regard. Liaoning Province scored a 9.9 percent increase. The three leagues and one city of eastern Nei Monggol scored a 10.8 percent increase. The state-run industrial enterprises scored a 9.2 percent increase in output value over the 1986 figure (which reached 5.6 percent). Collectively-owned enterprises scored an 11.5 percent increase over the 1986 figure (which reached 12 percent). The town-run enterprises scored a 34.5 percent increase based on a 33.1 percent increase in 1986.

The inner structures of industries were somewhat readjusted and the production of both light and heavy industries achieved harmonious development and simultaneous progress. During the first half, the economic zone realized 25.206 billion yuan in light industrial output value, a 12.6 percent increase over the 1986 figure, and 47.282 billion yuan in heavy industrial output value, a 10 percent increase over the 1986 figure. The production of energy resources and raw materials urgently needed by construction and productive activities achieved a steady increase.

In the field of investments in fixed assets, state-run units throughout the economic zone invested 8.066 billion yuan in fixed assets during the first half of this year, a 31.5 percent increase over the 1986 figure, which reached 39.5 percent. Judging from various provinces, Jilin Province scored a 65 percent increase in this regard; Heilongjiang Province, a 28.3 percent increase; and Liaoning Province, a 33.2 percent increase. The trend of investment expansion is still developing. The proportion of investment in productive projects has risen. During the first half, the economic zone invested 5.062 billion yuan in capital construction projects, a 1.096 billion yuan and 27.6 percent increase over the 1986 figure. Of this investment, that in productive projects reached 3.563 billion yuan, a 45.2 percent increase over the 1986 figure. The proportion of these projects in the total investment increased from 61.9 percent during the first half of 1986 to 70.6 percent during the corresponding period in 1987. Those in nonproductive projects reached 1.498 billion yuan and their proportion in the total investment decreased from 38.1 percent during the first half of 1986 to 29.4 percent during the corresponding

period in 1987. Of this investment, that in housing projects reached 454 million yuan, a 100 million yuan decrease over the 1986 figure, and its proportion in the total investment decreased from 13.98 percent during the first half of 1986 to 8.97 percent of the corresponding period in 1987.

In the commercial field, markets in both urban and rural areas throughout the economic zone flourished and enjoyed brisk sales and purchases along with the deepening of the drive to conduct reforms in commercial systems. During the first half, the zone's total retail sales of social commodities reached 35.837 billion yuan, a 17.2 percent increase over the 1986 figure. Of these retail sales, that of resident consumer goods reached 27.761 billion yuan, a 16.2 percent increase over the 1986 figure; that of consumer goods for social institutions reached 3.9 billion yuan, an 18.7 percent increase over the 1986 figure; and that of means of agricultural production reached 4.177 billion yuan, a 23.1 percent increase over the 1986 figure.

During the first half of this year, the general situation in developing the national economy throughout the northeast economic zone was fine. However, it is still experiencing the following problems: 1) The investment increase is excessive. The economic zone scored a 1.93 billion yuan increase during the first half over the 1986 figure for investment. 2) The purchasing power of social institutions has increased on a large scale. The economic zone scored a 616 million yuan and 18.7 percent increase over the 1986 figure in its retail sales of consumer goods for social institutions during the first half of this year, bringing about a trend of continuous expansion in consumptive funds and the necessity of curtailing social demands. 3) Economic results scored by industrial enterprises are not good enough. This is mainly because of excess expenses, an increase in losses, and low efficiency in utilizing funds. During the January-May period, industrial enterprises covered by the budget throughout the economic zone scored a 16.9 percent increase in income earned from product sales and a 5.9 percent increase in profits, bringing about a change in the decline in profits. However, judging from the general situation, the improvement of economic results has not achieved rapid progress. During the January-May period, industrial enterprises covered by the local budget scored an 8.7 percent increase over the 1986 figure in the cost of products in terms of comparable items. Of these enterprises, 1,403 suffered losses, which surpassed the 1986 number by 218, and their losses reached 318 million yuan, a 43.9 percent increase over the 1986 figure. These industrial enterprises did not successfully fulfill their annual plans for local financial revenues. Therefore, it is necessary for them to vigorously grasp income increases. While continuously doing a good job in readjusting the industrial structure, attention should be paid to readjusting the structure of products and investment, vigorously upgrading product quality, and lowering costs to reduce losses. Meanwhile, we should pay attention to bringing under control the expansion of social demands and improving the poor situation of economic results as soon as possible.

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